

Accounting and Financial Management

Introduction to Accounting



Introduction to Accounting

- **Accounting – An Information Process**
- **Users of Accounting Information**
- **GAAP**
- **The Accounting Equation**
- **Double Entry System**



Accounting...

is the language of business.

Accounting..

is an information system that...

measures business activities,

processes information, and...

communicates financial information.

Accounting – The Language of Business

Accounting is the information system that...

measures business activities,

processes data into reports, and

communicates results to decision makers.

Accounting

- a process of identifying, recording, summarizing, and reporting economic information to decision makers in the form of financial statements.

Definitions of Accounting

- “The process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information.”

—American Accounting Association (AAA)

- “A service activity whose function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.”

—American Institute of Certified Public Accountants (AICPA)

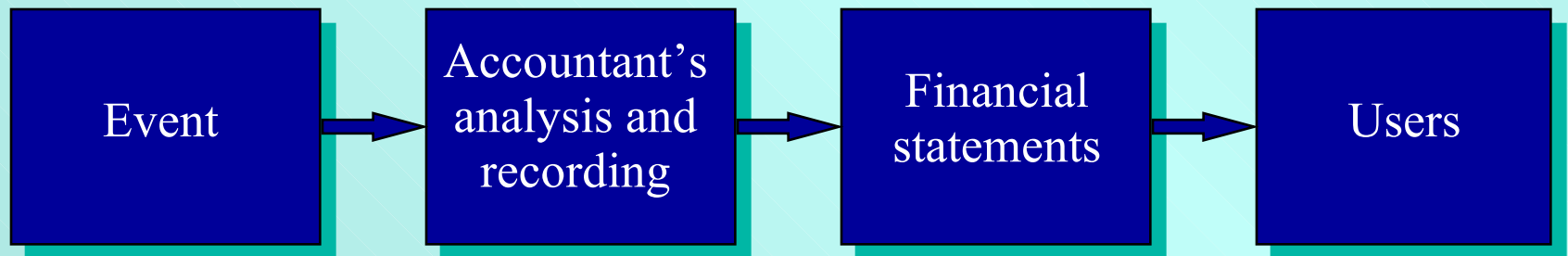
Primary Functions of Accounting

- Recording data about business transactions- In the Egyptian era they used a quill pen to record the data and stored it on papyrus scrolls. Today we might use a bar code and scan data into a computer system and store it on a magnetic disk.
- Summarizing results of business activity into useful report- The balance sheet and income statement have been standard reports for many years. More recently we added a statement of cash flows. However, managers in today's environment demand more detailed reports like sales by district or sales by product type.

- Providing assurances that the business is operating as intended and that the assets of the organization are protected- All parties to a business event have looked to accountants to provide assurance that the transaction is properly handled, accurately recorded, and accurately reported. Throughout most of this century the assurance has been based on a system of internal controls and an audit of the published financial statements.

Accounting as an Aid to Decision Making

- Accounting helps in decision making by showing where and when money has been spent, by evaluating performance, and by showing the implications of choosing one plan instead of another.
- Fundamental relationships in the decision-making process:

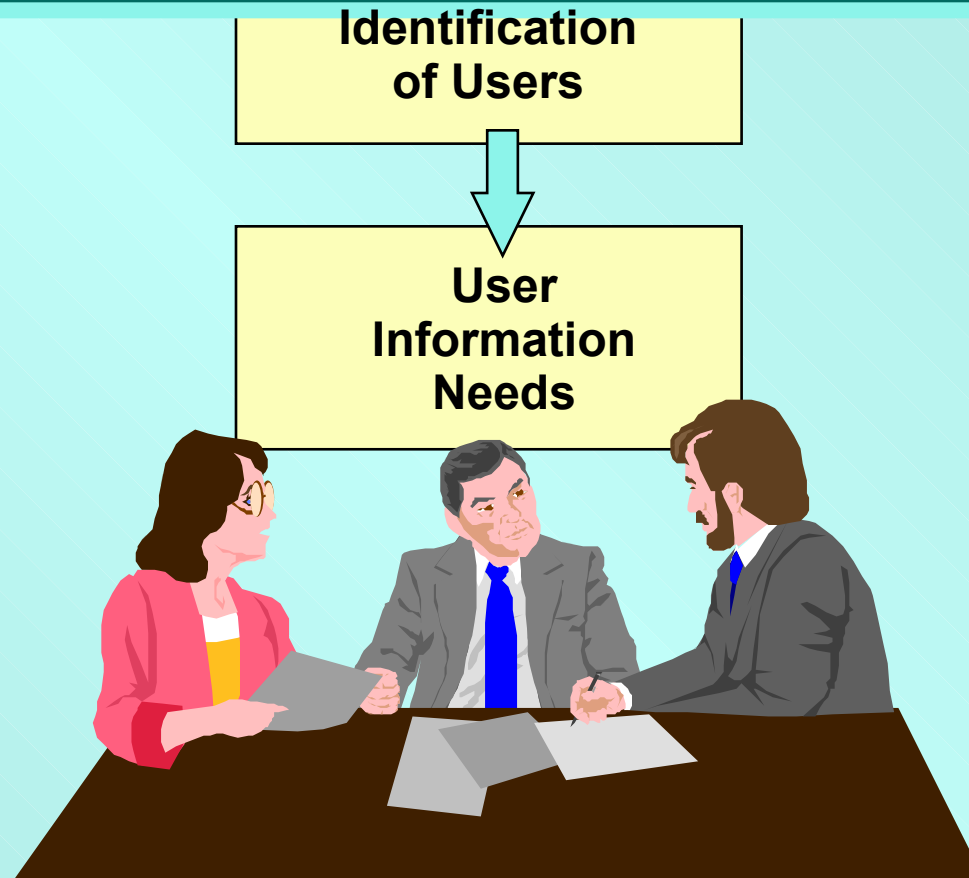


Accounting — An Information Process

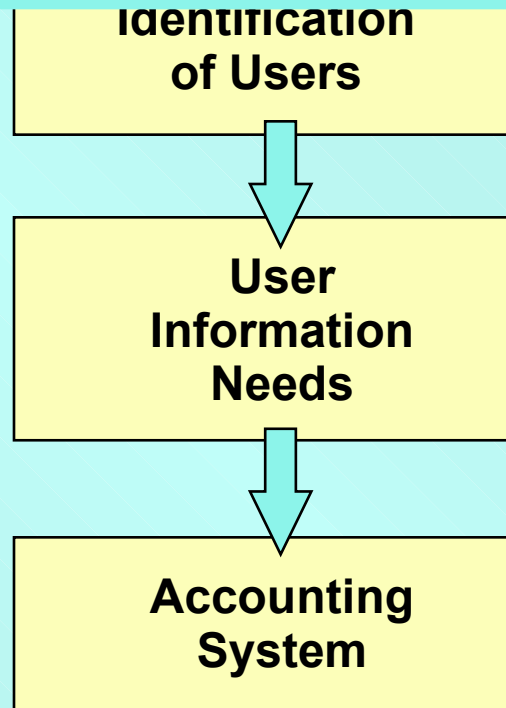
Identification
of Users



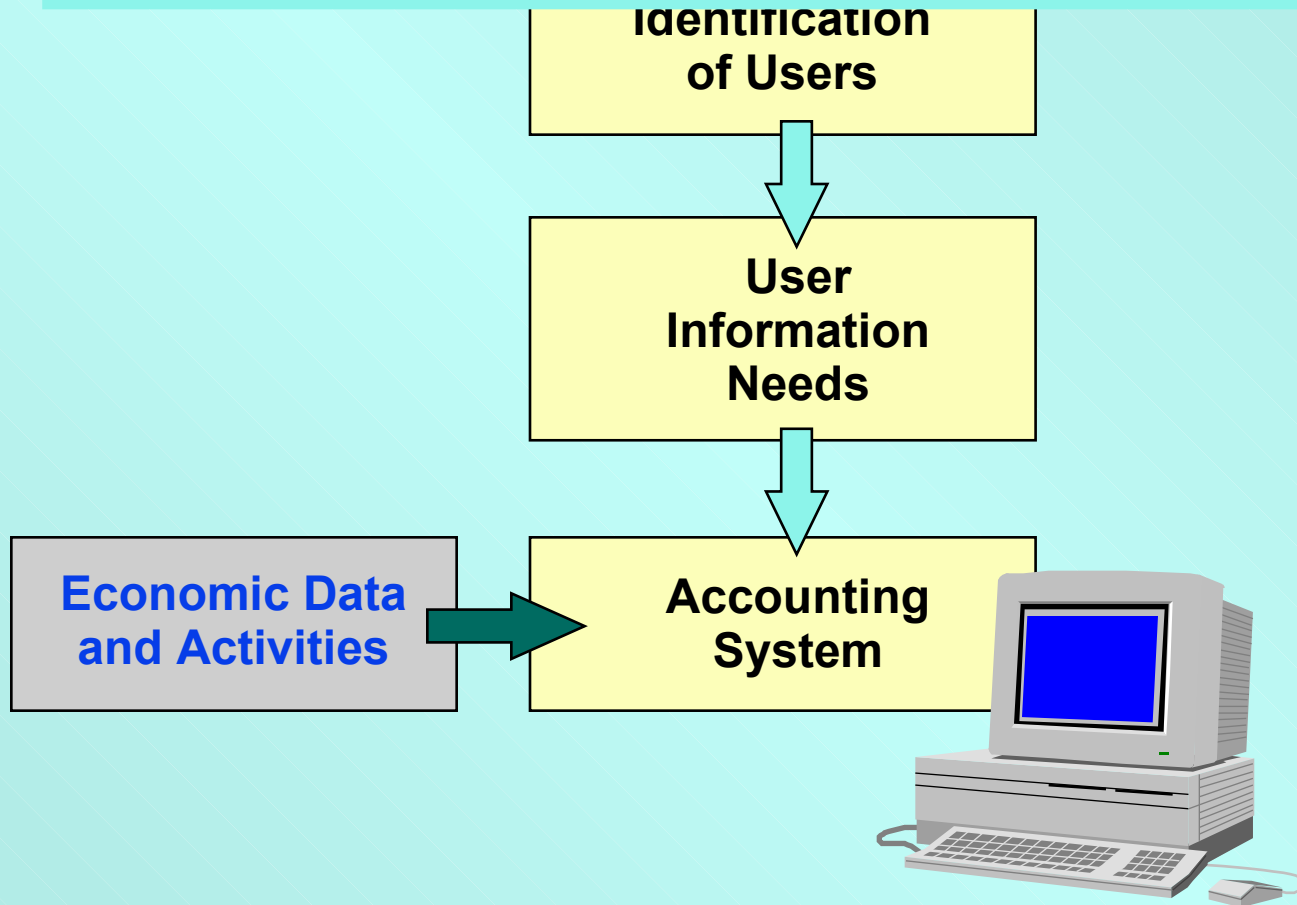
Accounting — An Information Process



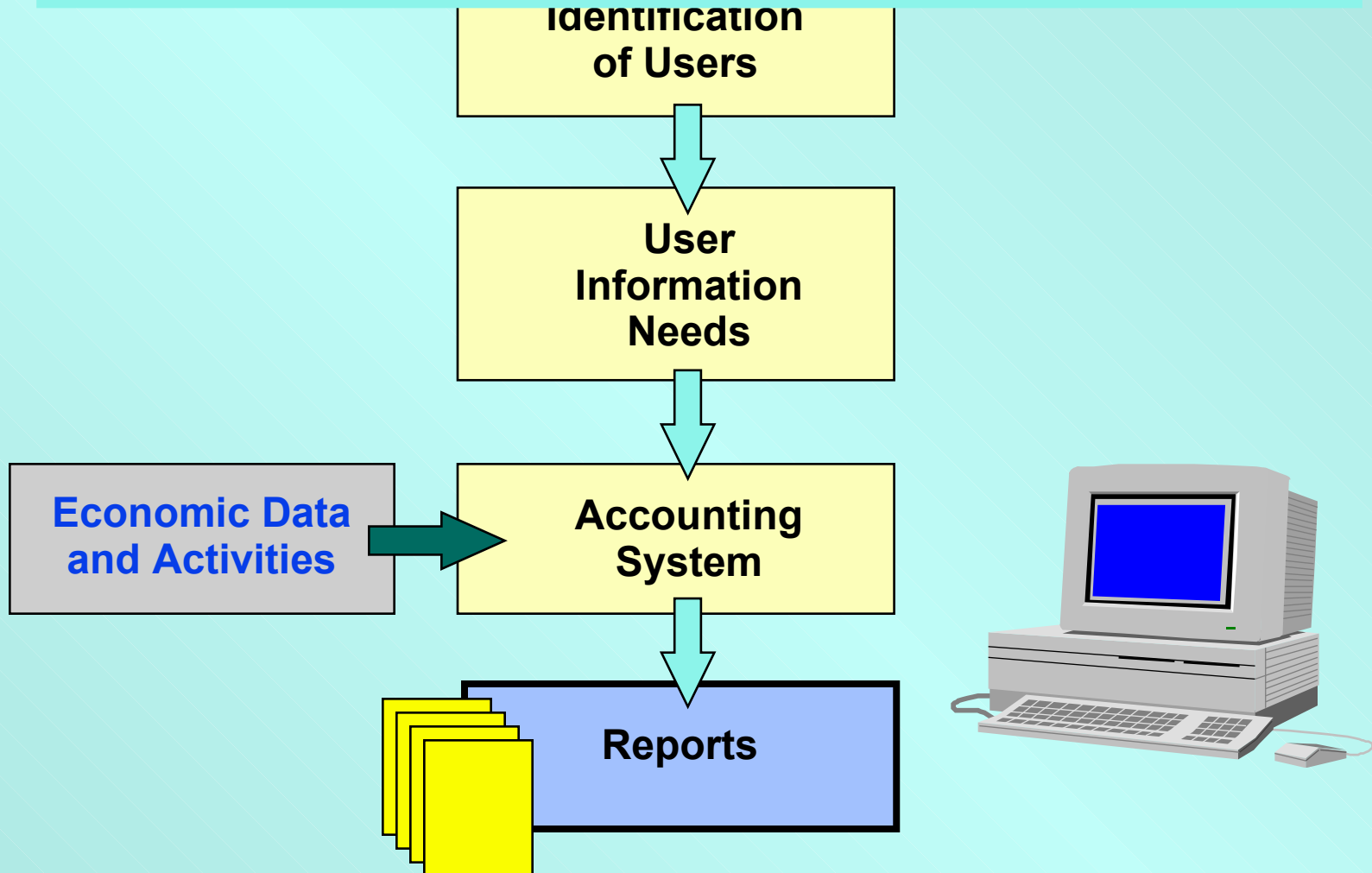
Accounting — An Information Process



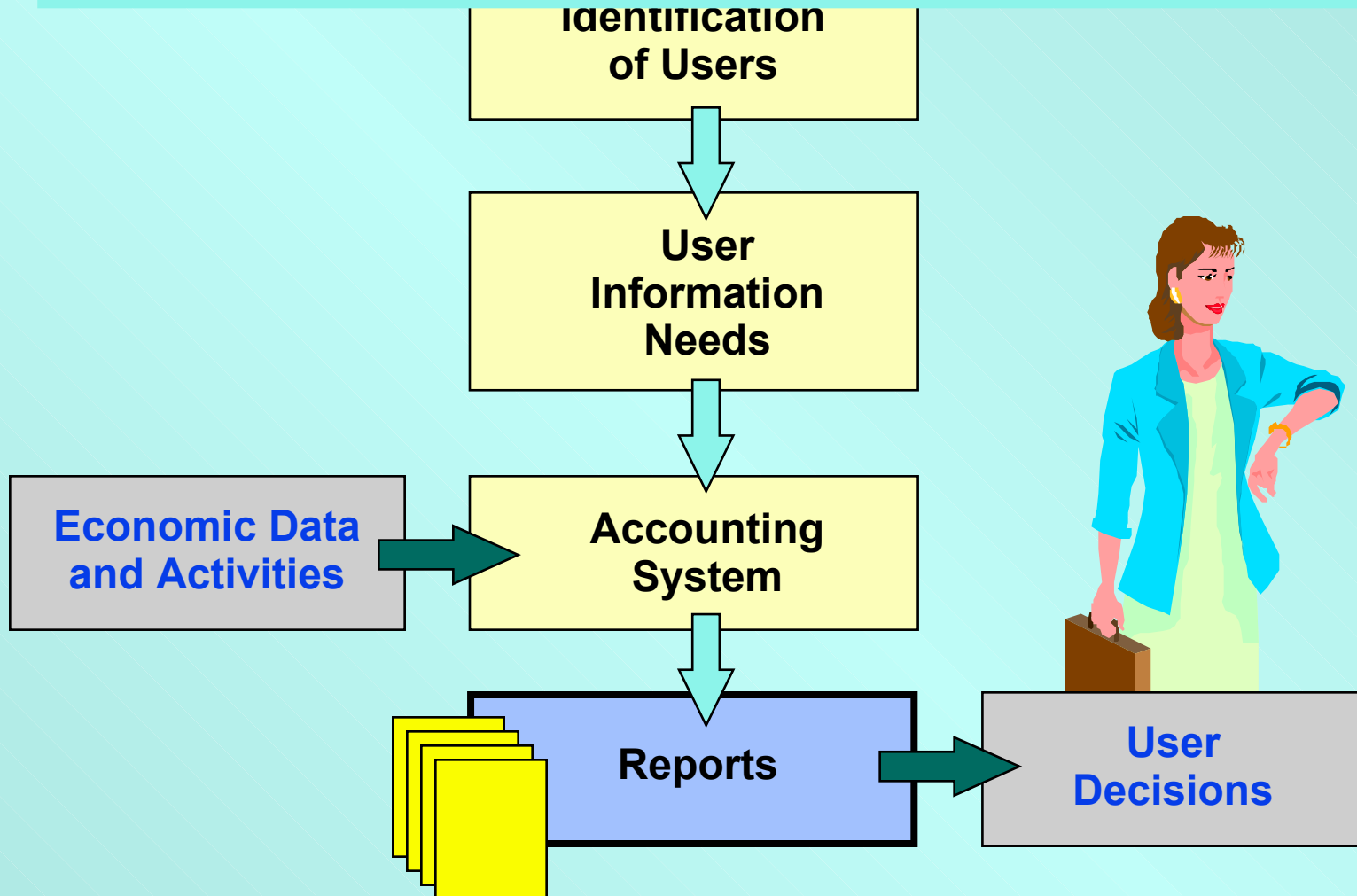
Accounting — An Information Process



Accounting — An Information Process



Accounting — An Information Process

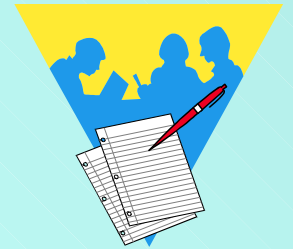


The Flow of Accounting Information

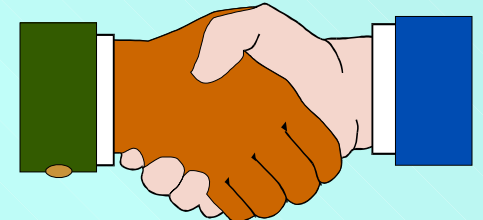
1. Business transactions occur



2. Businesses prepare reports to Show the results of their operations



3. People make decisions.



The Flow of Accounting Information

- Accounting systems are designed to meet the needs of the decision makers who use the financial information.
- Every business maintains some type of accounting system.
 - These accounting systems may be very complex or very simple, but the real value of any accounting system lies in the information that the system provides.

Users of Accounting Information

Individuals

Government
regulatory
agencies

Businesses

Taxing
authorities

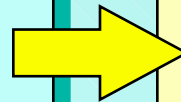
Investors and
creditors

Nonprofit
organizations

Users of Accounting Information

Financial Accounting

EXTERNAL USERS



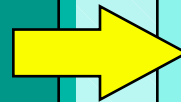
- investors
- creditors
- regulators
- customers
- competitors



Users of Accounting Information

Financial Accounting

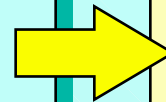
EXTERNAL USERS



- investors
- creditors
- regulators
- customers
- competitors

Financial Accounting

INTERNAL USERS



- owners
- managers
- employees

Users of Accounting Information

External users
make decisions
about the entity.

Internal users
make decisions
for the entity.

Financial Accounting

Its focus is on reporting to external parties.

It measures and records business transactions.

It provides financial statements based on generally accepted accounting principles.

Management Accounting

It measures and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.

Cost Accounting

It provides information for both management accounting and financial accounting.

It measures and reports financial and nonfinancial data.

Some Definitions to remember:

- Inventory - goods held by a firm for resale to customers
- Account payable - a liability that results from the purchase of goods or services on account
- Compound entry - a transaction that affects more than two accounts
- Creditor - one to whom money is owed
- Debtor - one who owes money

Assets

- What is an asset?
- It is something a company owns which has future economic value.
 - land
 - building
 - equipment
 - goodwill

Liability

- What is a liability?
- It is something a company owes.
 - money
 - service
 - product

Revenues

- What are revenues?
- They are amounts received or to be received from customers for sales of products or services.
 - sales
 - performance of services
 - rent
 - interest

Expenses

- What are Expenses?
- They are amounts that have been paid or will be paid later for costs that have been incurred to earn revenue.
 - salaries and wages
 - utilities
 - supplies used
 - advertising

Owner's Equity

- What is owner's equity?
- It is what's left of the assets after liabilities have been deducted.
 - the same as net assets
 - the owner's claim on the entity's assets

Transactions that Affect Owner's Equity

OWNER'S EQUITY INCREASES

**Owner Investments
in the Business**

Revenues

Owner's Equity

OWNER'S EQUITY DECREASES

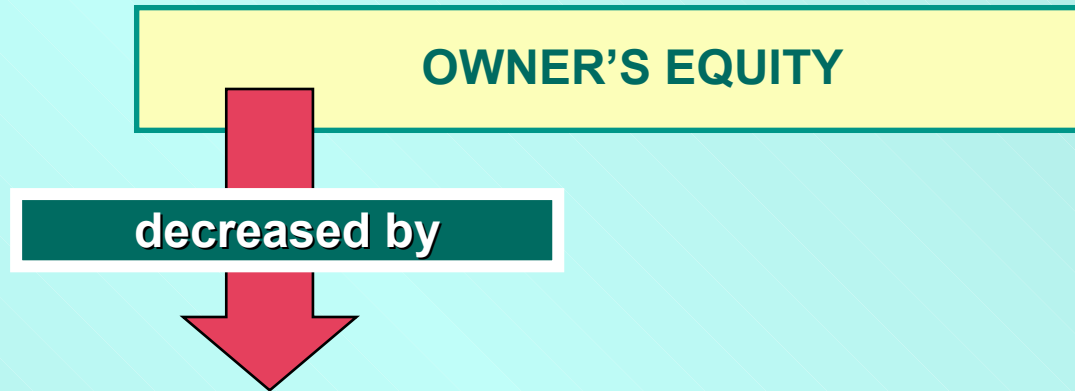
**Owner Withdrawals
from the Business**

Expenses

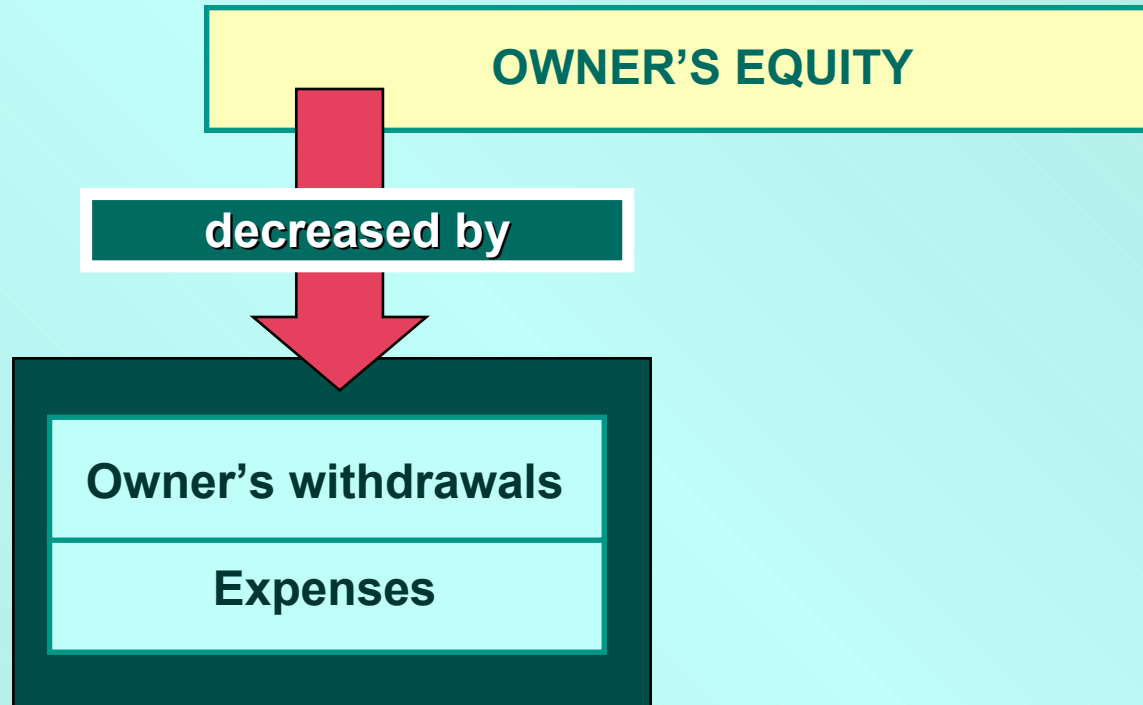
Effects of Transactions on Owner's Equity

OWNER'S EQUITY

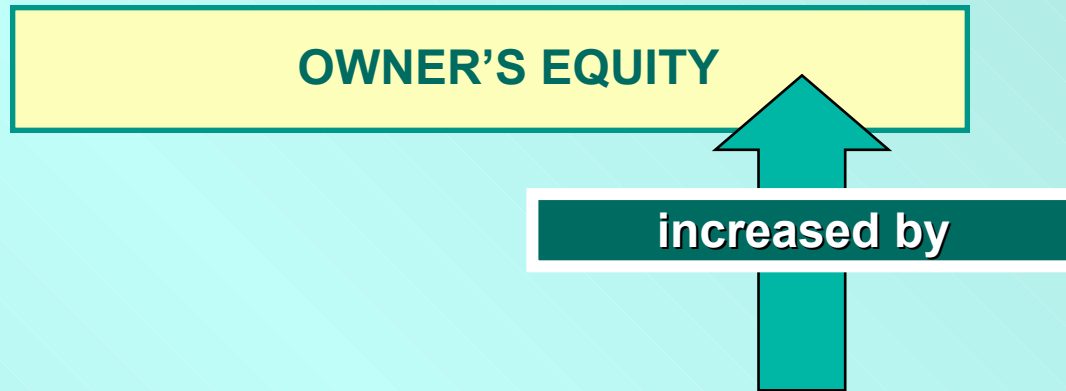
Effects of Transactions on Owner's Equity



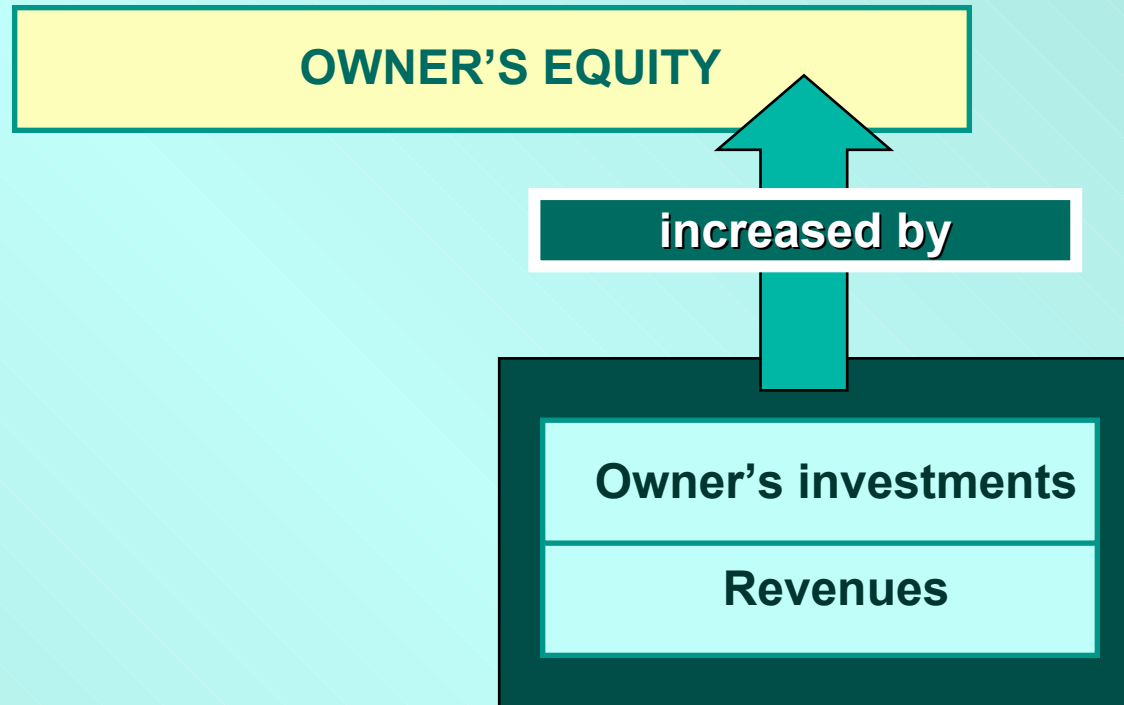
Effects of Transactions on Owner's Equity



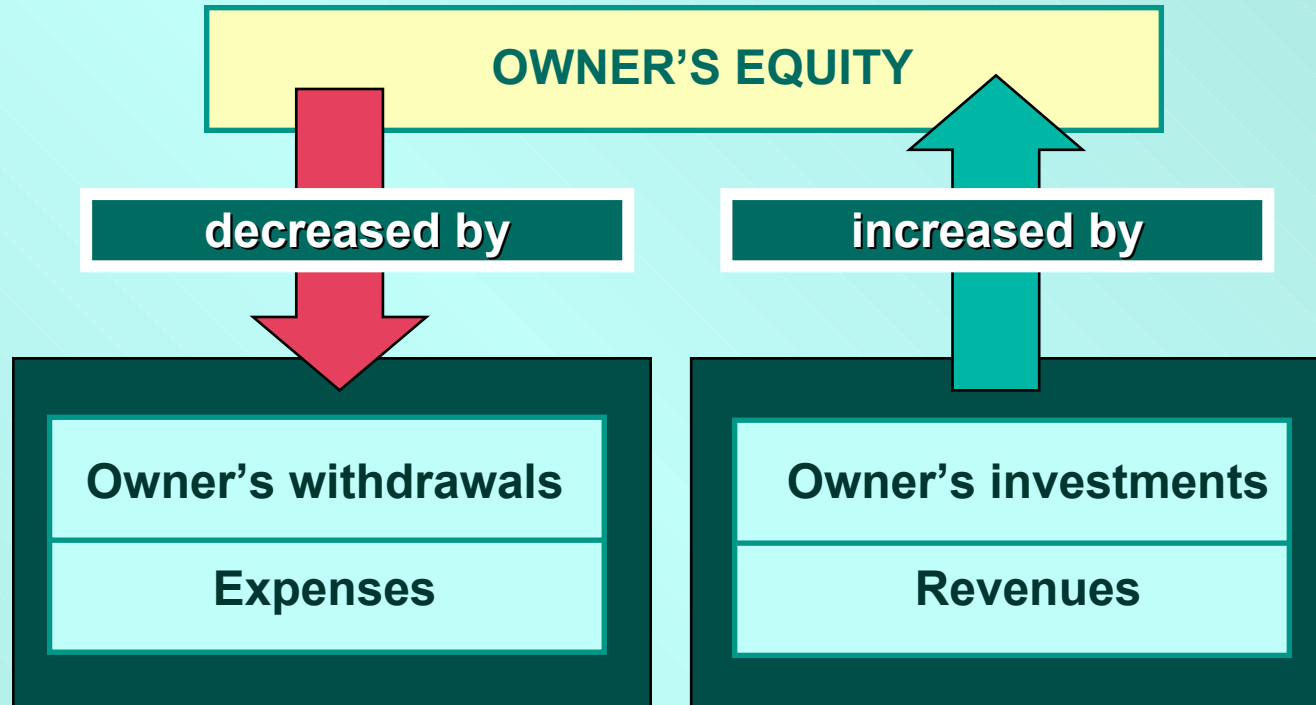
Effects of Transactions on Owner's Equity



Effects of Transactions on Owner's Equity

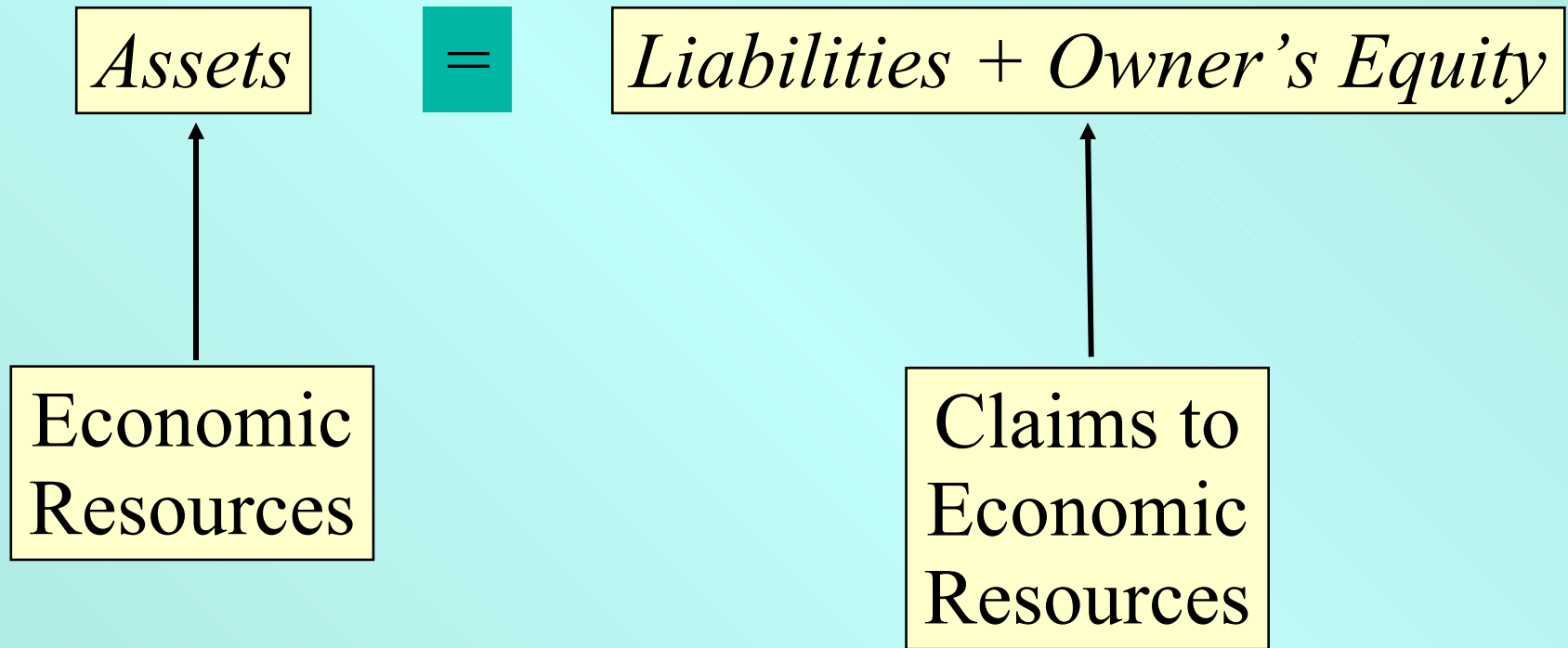


Effects of Transactions on Owner's Equity



The Accounting Equation

The Accounting Equation



The Accounting Equation

Resources



What are an organization's resources called?

The Accounting Equation

Resources = Sources

Assets

**Resources used
in the business**

**What are the
sources of the
assets?**

The Accounting Equation

Resources = Sources

Assets

Liabilities

**Owner's
Equity**

**Resources used
in the business**

**Resources
supplied by
creditors and
owners**

The Basic Accounting Equation

- Accounting data is represented by the following relationship among the assets, liabilities and owners' equity of a business:

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

- The equation must be in balance after *every* recorded transaction in the system.

Business Transactions

- a. Sachin deposits RS 25,000 in a bank account for ABC Ltd

ASSETS

LIABILITIES

=

OWNER'S EQUITY

Business Transactions

- a. Sachin deposits RS 25,000 in a bank account for ABC Ltd.

ASSETS		LIABILITIES	
Cash 25,000			
			OWNER'S EQUITY

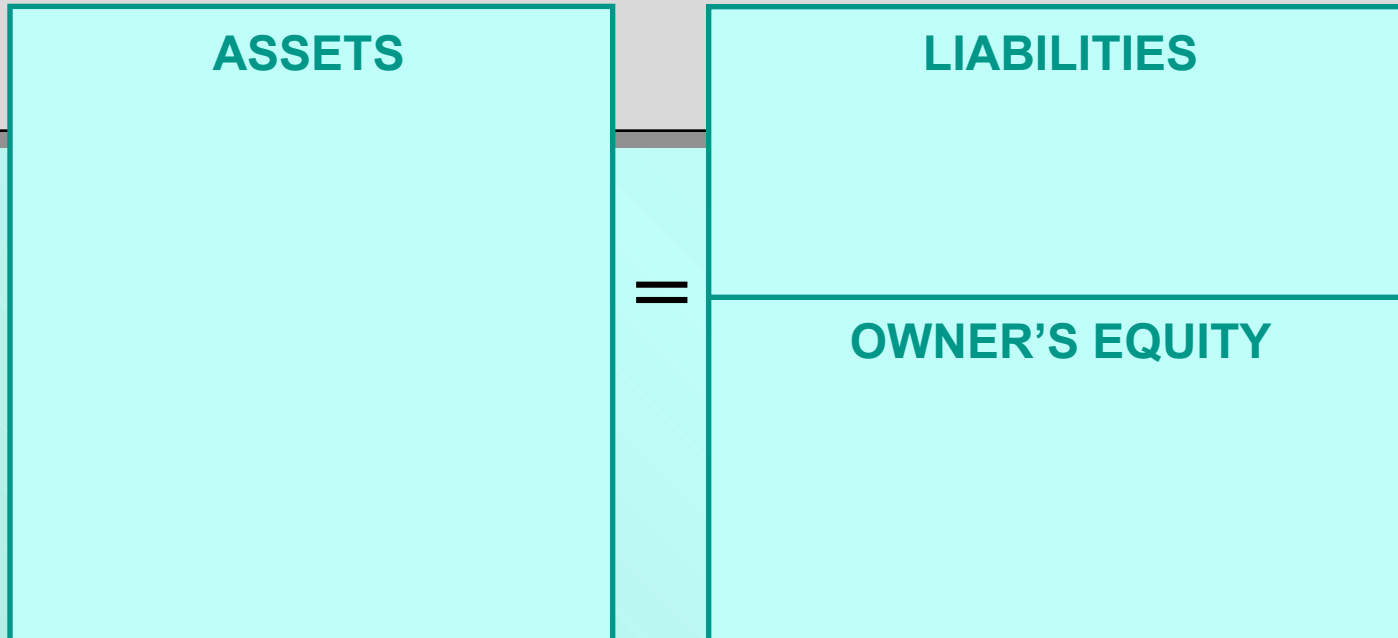
Business Transactions

- a. Sachin deposits RS 25,000 in a bank account for ABC Ltd.

ASSETS		LIABILITIES
Cash 25,000	=	
		OWNER'S EQUITY
		Sachin, Capital 25,000

Business Transactions

b. ABC Ltd. buys land for Rs 20,000.



Business Transactions

b. ABC Ltd. buys land for Rs 20,000.

ASSETS		LIABILITIES	
Cash (20,000)			
		OWNER'S EQUITY	

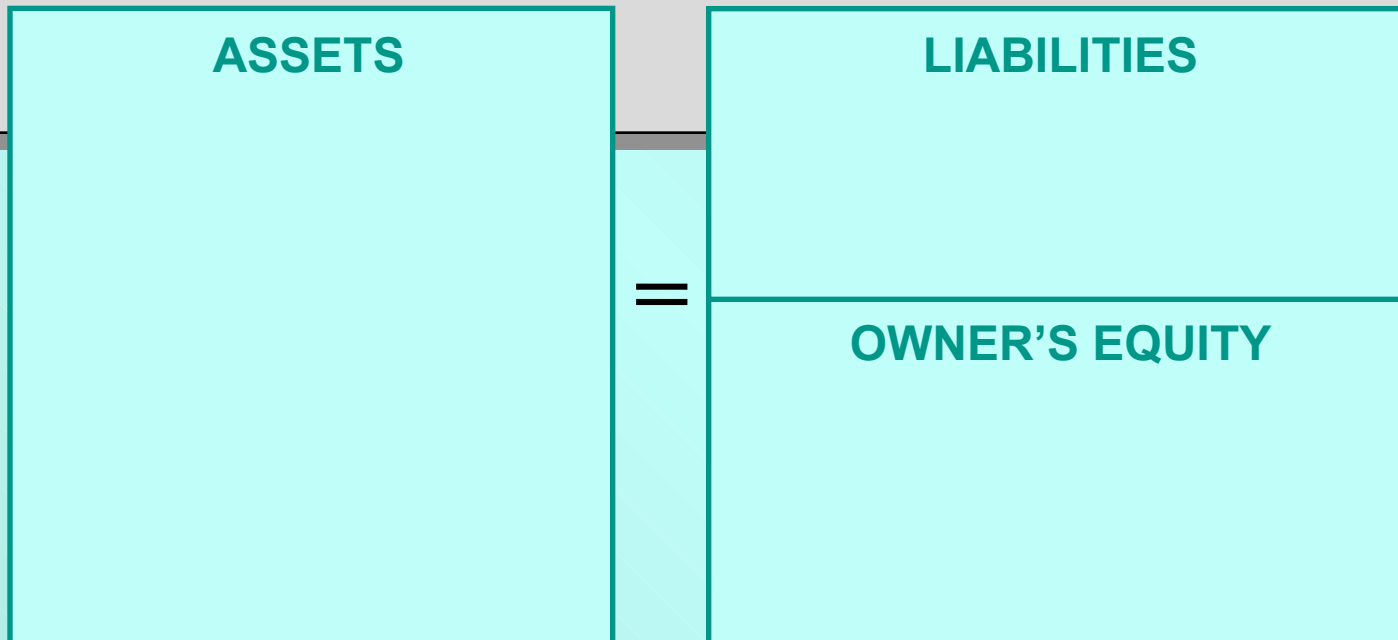
Business Transactions

b. ABC Ltd buys land for RS 20,000.

ASSETS		LIABILITIES	
Cash (20,000)			
Land 20,000			
		OWNER'S EQUITY	

Business Transactions

c. ABC Ltd buys goods for RS1,350, agreeing to pay the supplier in the near future.



Business Transactions

c. ABC Ltd buys goods for RS1,350, agreeing to pay the supplier in the near future.

ASSETS	LIABILITIES
<div data-bbox="386 696 770 856">Purchases 1,350</div>	<div data-bbox="1029 582 1657 741">Accounts Payable 1,350</div> <div data-bbox="987 782 1686 1120">OWNER'S EQUITY</div>

=

Business Transactions

e. ABC Ltd paid: wages Rs 2,125; rent, Rs 800; utilities, Rs 450; and miscellaneous, Rs 275.

ASSETS

LIABILITIES

=

OWNER'S EQUITY

Business Transactions

e. ABC Ltd paid: wages Rs 2,125; rent, Rs 800; utilities, Rs 450; and miscellaneous, Rs 275.

ASSETS

**Cash
(3,650)**

=

LIABILITIES

OWNER'S EQUITY

Business Transactions

e. ABC Ltd paid: wages Rs 2,125; rent, Rs 800; utilities, Rs 450; and miscellaneous, Rs 275.

ASSETS

**Cash
(3,650)**

=

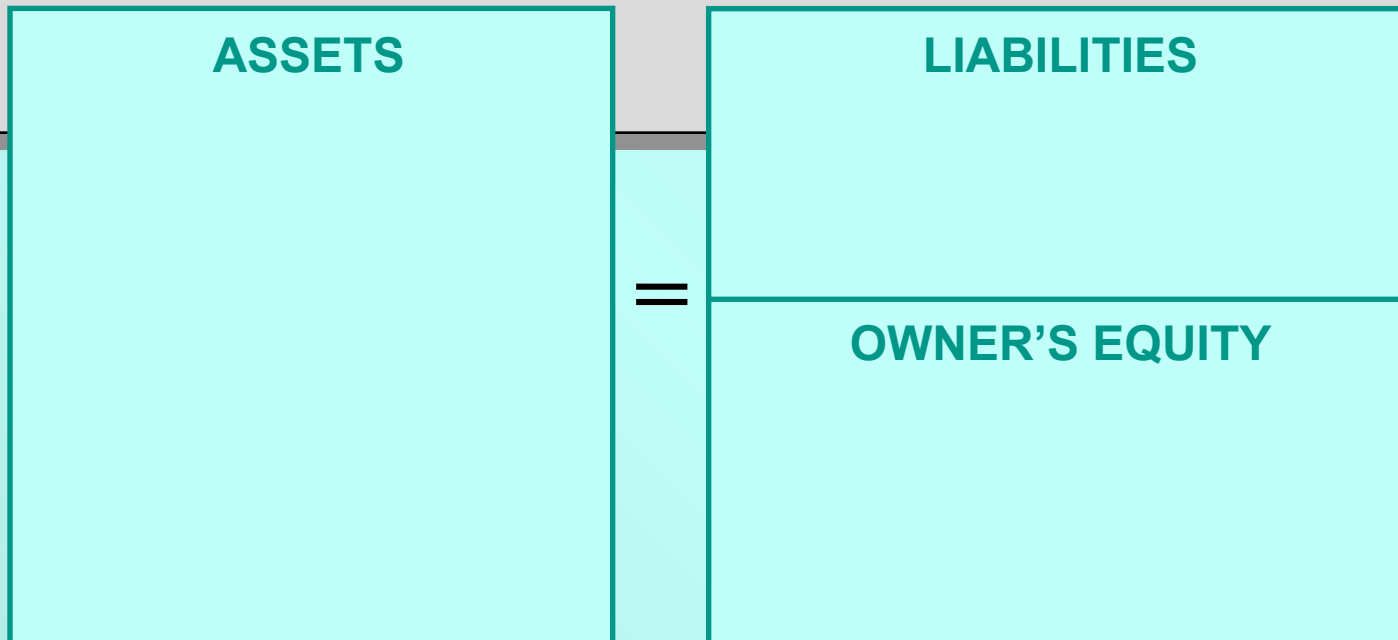
LIABILITIES

OWNER'S EQUITY

**Expenses
(3,650)**

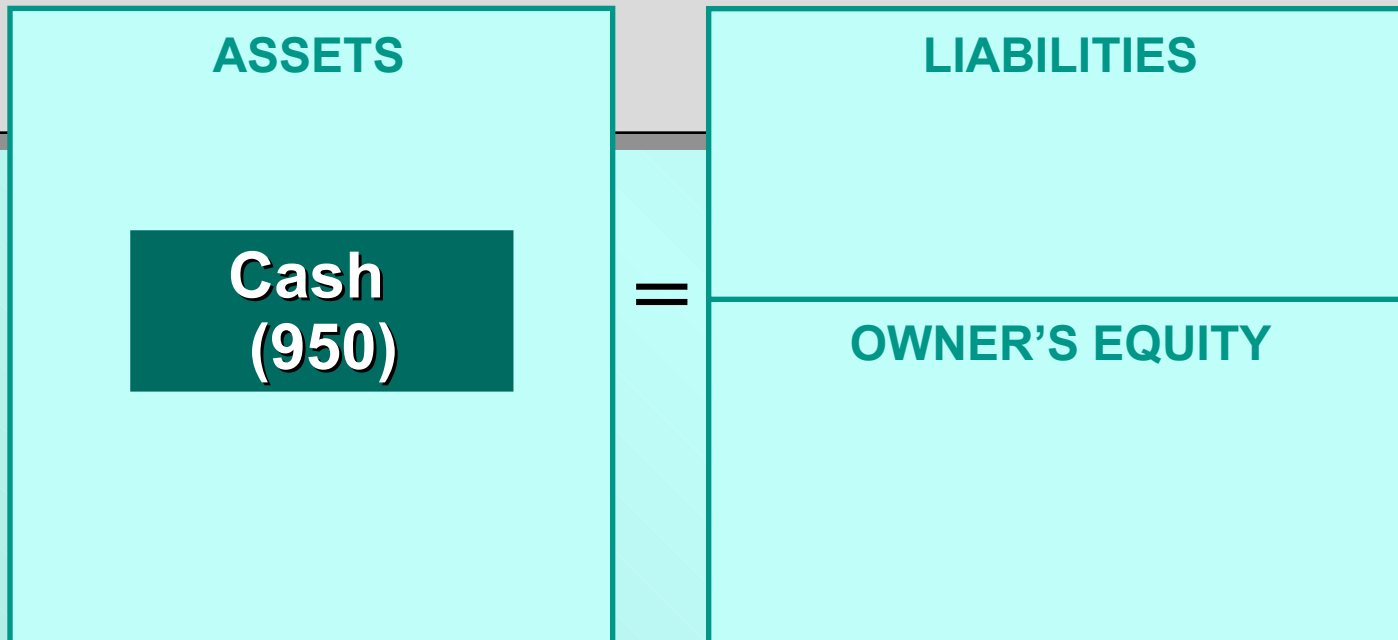
Business Transactions

f. ABC Ltd pays Rs 950 to creditors on account.



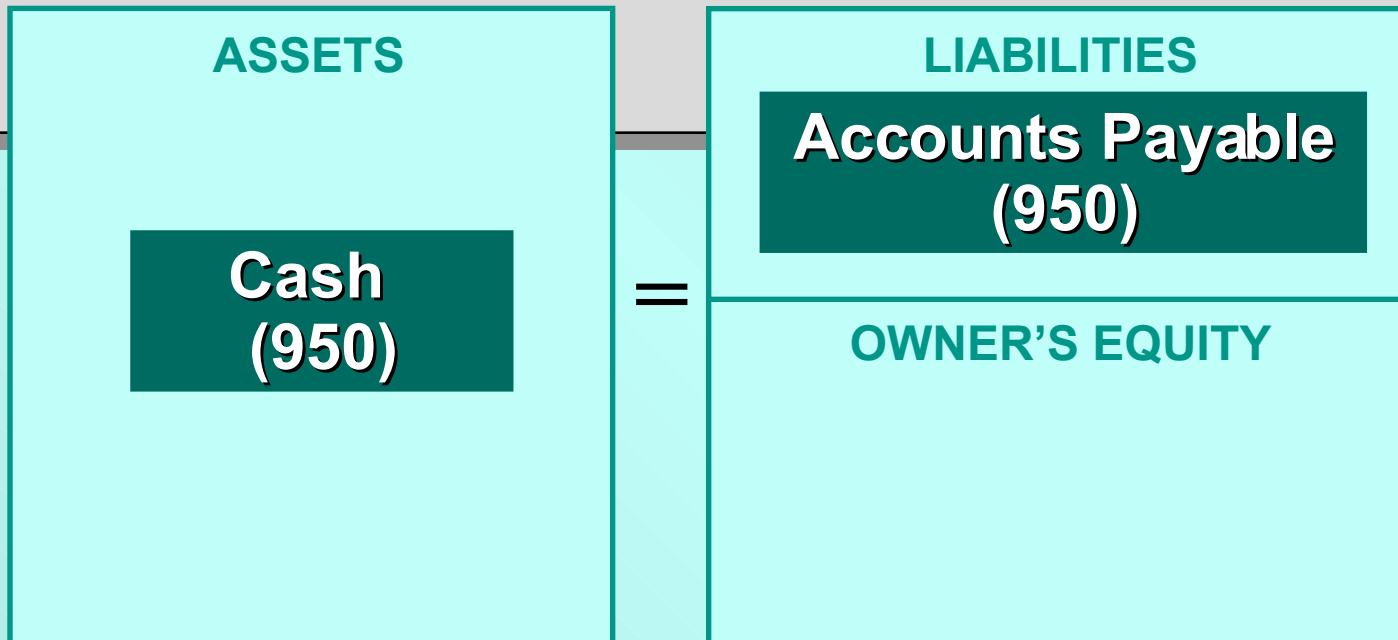
Business Transactions

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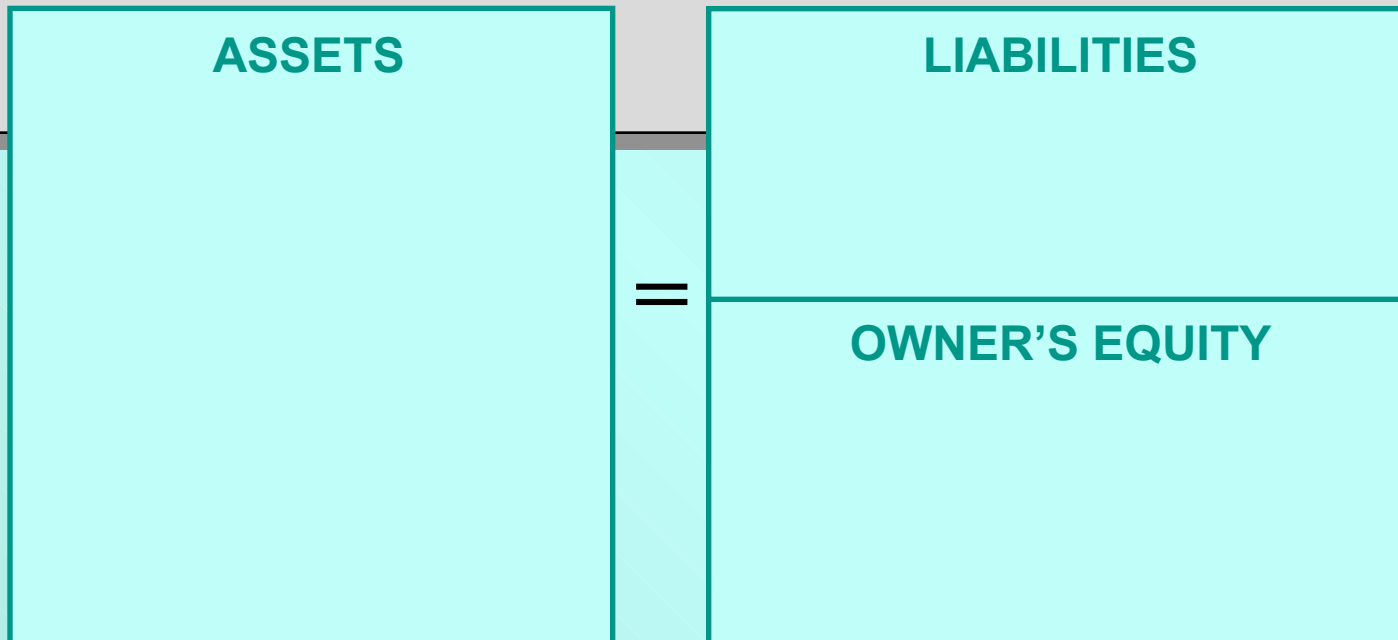
Business Transactions

f. ABC Ltd pays Rs 950 to creditors on account.



Business Transactions

h. Sachin withdraws Rs 2,000 in cash.



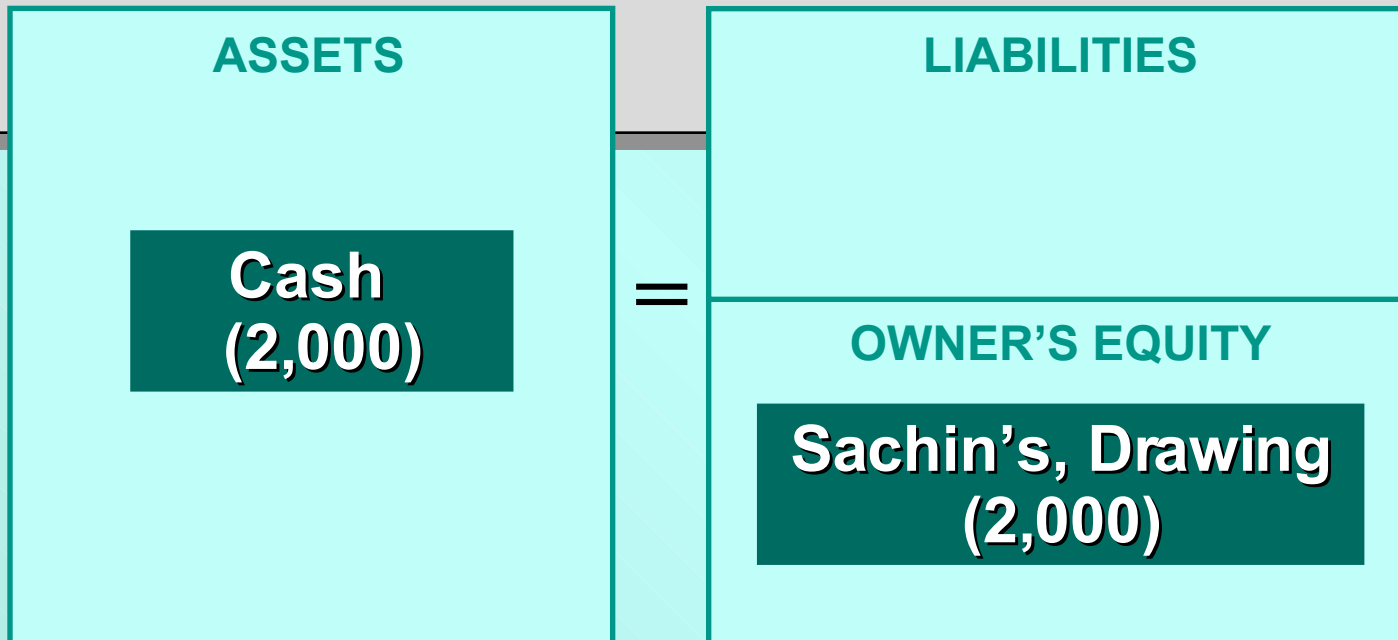
Business Transactions

h. Sachin withdraws Rs 2,000 in cash.

ASSETS		LIABILITIES	
Cash (2,000)			
			OWNER'S EQUITY

Business Transactions

h. Sachin withdraws Rs 2,000 in cash.



Transaction Summary

ASSETS

Cash	6,700
Purchases	550
Land	20,000

=

LIABILITIES

OWNER'S EQUITY

Transaction Summary

ASSETS

Cash	6,700
Purchases	550
Land	20,000

=

LIABILITIES

Accts. Payable 400

OWNER'S EQUITY

Transaction Summary

ASSETS

Cash	6,700
Purchases	550
Land	20,000

=

LIABILITIES

Accts. Payable	400
----------------	-----

OWNER'S EQUITY

Sachin, Capital	25,000
Sachin, Drawing	(2,000)
Fees Earned	7,500
Wages Expense	(2,125)
Rent Expense	(800)
Commission	(450)
Misc. Expense	(275)

Role of Accounting

Good managers plan for the future.

They develop a *budget*.

A budget is a formal plan
stated in monetary terms.

Role of Accounting

Accounting helps banks decide to whom they will lend money.

Accounting provides information that helps investors pick stocks.

Role of Accounting



Budgeting

Information systems design

Cost accounting

Internal auditing

Role of Accounting



Consulting

Assurance
services
including
auditing

Tax
accounting

Accounting as an Aid to Decision Making

- Accounting information is useful to anyone who makes decisions that have economic results.
 - Owners want to know which employees are productive.
 - investors want to know if a company is a good investment.
 - Legislators want to know how a proposed law will affect budgets.
 - Managers want to know if a new product will be profitable.
 - Creditors want to know if they should extend credit, how much to extend, and for how long.

ABUSIVE ACCOUNTING PRACTICES

- CREATIVE ACCOUNTING PRACTICES
 - ENRON
 - DEBTS NOT REPORTED
 - RECOGNITION OF LOSSES WAS POSTPONED
 - REPORT INCOME BEFORE BEING EARNED

Generally Accepted Accounting Principles

Financial Accounting

Its focus is on reporting to external parties.

It measures and records business transactions.

It provides financial statements based on generally accepted accounting principles.

Generally Accepted Accounting Principles

- What is the primary objective of financial Accounting and Reporting?

To provide information useful
for making investment and
lending decisions

Generally Accepted Accounting Principles and Basic Concepts

- If every accountant used his or her own rules for recording transactions, the financial statements would be useless in making comparisons.
- Therefore, accountants have agreed to apply a common set of measurement principles (a common language) to record information for financial statements. Otherwise, decision makers could not use or compare financial statements.

Accounting: Principles and Concepts

Accountants follow professional guidelines.

The rules that govern accounting are called GAAP
(generally accepted accounting principles).

Generally Accepted Accounting Principles and Basic Concepts

- Generally accepted accounting principles (GAAP) - a term that applies to the broad concepts or guidelines and detailed practices in accounting, including all the conventions, rules, and procedures that make up accepted accounting practice at a given time

REGULATION OF THE ACCOUNTING PROFESSION

- Securities And Exchange Commission (SEC)
- Financial Accounting Standards Board (FASB)
- American Institute Of Certified Public Accountants (AICPA)

Standard Setting Bodies

- In the United States, GAAP is set primarily by the private sector with government oversight.
- In many other countries, such as France, the government actually sets accounting standards.

Standard Setting Bodies

- Securities and Exchange Commission (SEC) - the agency designated by the U.S. Congress to hold the ultimate responsibility for authorizing GAAP for companies whose stock is held by the general investing public
 - The SEC has informally delegated the power to make accounting rules to the FASB.

Standard Setting Bodies

- Financial Accounting Standards Board (FASB) - responsible for establishing GAAP in the United States;
 - A private sector body consisting of seven full-time members and a large support staff



Standard Setting Bodies

- International Accounting Standards Board (IASB) - an organization representing over 143 accountancy boards from 104 countries that is developing a common set of accounting standards to be used throughout the world

Standard Setting Bodies

- Interest in harmonizing accounting standards around the world by eliminating differences in accounting principles has grown.
 - Investors are committing more of their money worldwide.
- Many multinational companies voluntarily issue their financial statements in conformity with the IASB standards.

IMPORTANT CONCEPTS

- ENTITY ASSUMPTION
- GOING CONCERN
- ASSET VALUATION
 - HISTORICAL COST
 - MARKET VALUE
- LIABILITY RECOGNITION

IMPORTANT CONCEPTS

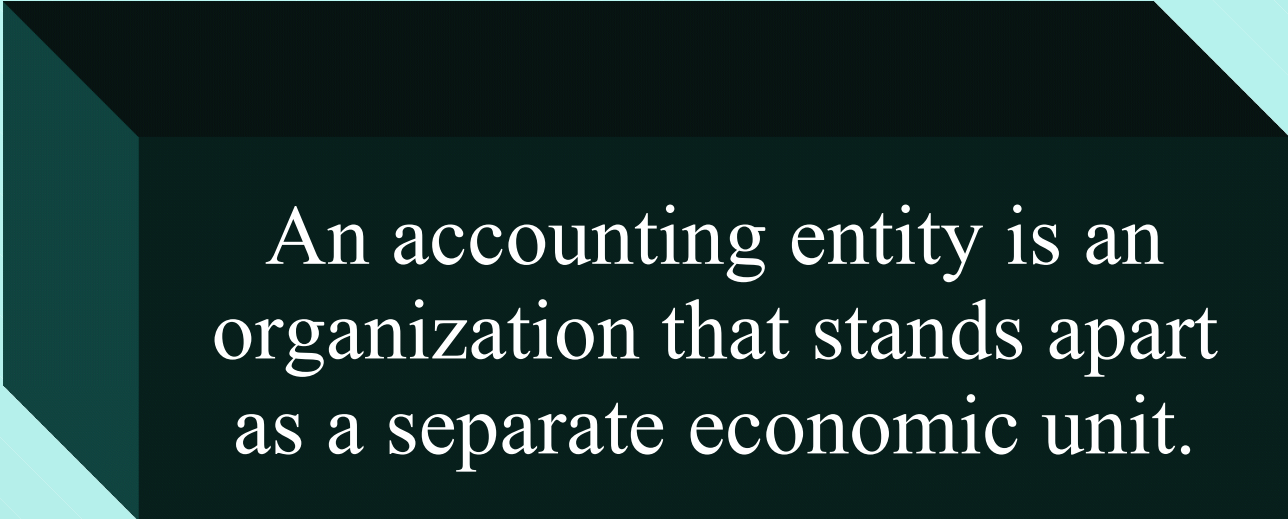
- ACCOUNTING PERIOD
 - REVENUE RECOGNITION
 - MATCHING EXPENSES TO REVENUES
- UNIT OF MEASUREMENT
- CONSERVATISM
- FULL DISCLOSURE

Generally Accepted Accounting Principles and Basic Concepts

The Entity Concept

- An accounting entity is an organization that stands apart from other organizations and individuals as a separate economic unit.
 - The entity concept helps relate events to a clearly defined area of accountability.

The Entity Concept



An accounting entity is an organization that stands apart as a separate economic unit.

The Entity Concept Example

- Assume that John decides to open up a gas station and coffee shop.
- The gas station made Rs 250,000 in profits, while the coffee shop lost Rs 50,000.

The Entity Concept Example

- How much money did John make?
- At a first glance, we would assume that John made Rs 200,000.
- However, by applying the entity concept we realize that the gas station made Rs 250,000 while the coffee shop lost Rs 50,000.

Generally Accepted Accounting Principles and Basic Concepts

The Going Concern Concept

The entity will continue to operate in the future.

Generally Accepted Accounting Principles and Basic Concepts

Going Concern Convention

- The assumption that in all ordinary situations an entity persists indefinitely
 - This notion implies that a company's existing resources will be used to fulfill the business needs of the company rather than be sold.
 - If the continuity of an entity is in doubt, a liquidation approach to the balance sheet is taken, and the assets and liabilities are valued as if the entity were to be liquidated in the near future.

- Record fixed assets at original cost and depreciate over a period of time.

- Take prepaid expenses as assets.

- Business is concerned with net income or earning capacity as compared to market values.

Generally Accepted Accounting Principles and Basic Concepts

Materiality Convention

- A financial statement item is material if its omission or misstatement would tend to mislead the reader of the financial statements under consideration
 - Materiality often depends on the size of the organization – what is material to one company might not be material to another company.

- AAA defines
 - “An item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of informed investor”
- Disclose only material information.
- No overburdening with minute details
- Material information differs organization to organization year to year (change in depreciation method)
- Materiality may depend upon amount or may not be.

Generally Accepted Accounting Principles and Basic Concepts

Convention of Conservatism:-

- “ Anticipate no profits but provide for all possible losses”
- Policy of ‘caution’ & ‘playing safe’
- Policy of safeguarding against possible losses in world of uncertainty

Kobler defines :-

‘Conservatism’ as a guideline which chooses between acceptable accounting alternatives for recording events or transactions so that the least favorable immediate effect on assets , income and owner’s equity is reported.

Example:-

Making the provision for doubtful debts and discounts on debtors in anticipation of actual bad debts and discount

Generally Accepted Accounting Principles and Basic Concepts

Cost-Benefit Criterion

- A system should be changed when the expected additional benefits of the change exceed its expected additional costs
 - The benefits of information should exceed the cost of providing that information.

Benefits > Costs

Generally Accepted Accounting Principles and Basic Concepts

The Stable-Monetary-Unit Concept

The purchasing power is stable.

Generally Accepted Accounting Principles and Basic Concepts

Stable Monetary Unit

- The monetary unit is the principle means for measuring assets and equities.
 - It is the common denominator for quantifying the effects of transactions.
 - A stable monetary unit is one that is not expected to significantly change in value over time.



Generally Accepted Accounting Principles and Basic Concepts

The Cost Principle

Assets and services
acquired
should be recorded
at their actual cost.

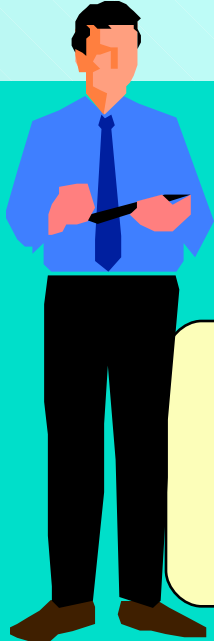
- Record assets at price paid to acquire and take it as base for subsequent years.
- Makes financial statements more objective.

Limitations

- Financial statements become irrelevant in case of inflation
- Remove cost of fixed assets by writing off their cost while asset may be in good condition
- Don't show as asset for which no payment has been made for e.g knowledge ,skill of Human Resources.

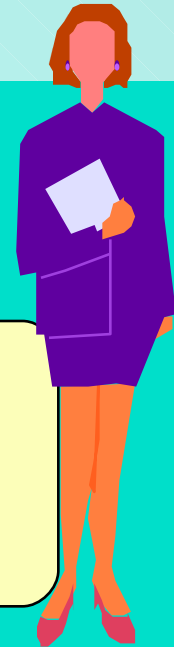
Accrual Basis

Reporting Revenue and Expense



TWO METHODS

Cash Basis of Accounting
Accrual Basis of Accounting



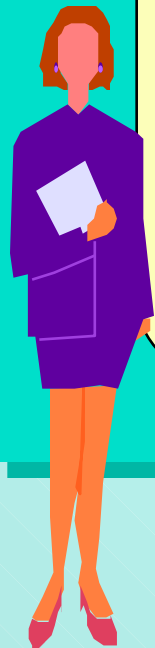
Cash Basis of Accounting

- ✓ Revenue reported when cash is received
- ✓ Expense reported when cash is paid
- ✓ Does not properly match revenues and expenses



Accrual Basis of Accounting

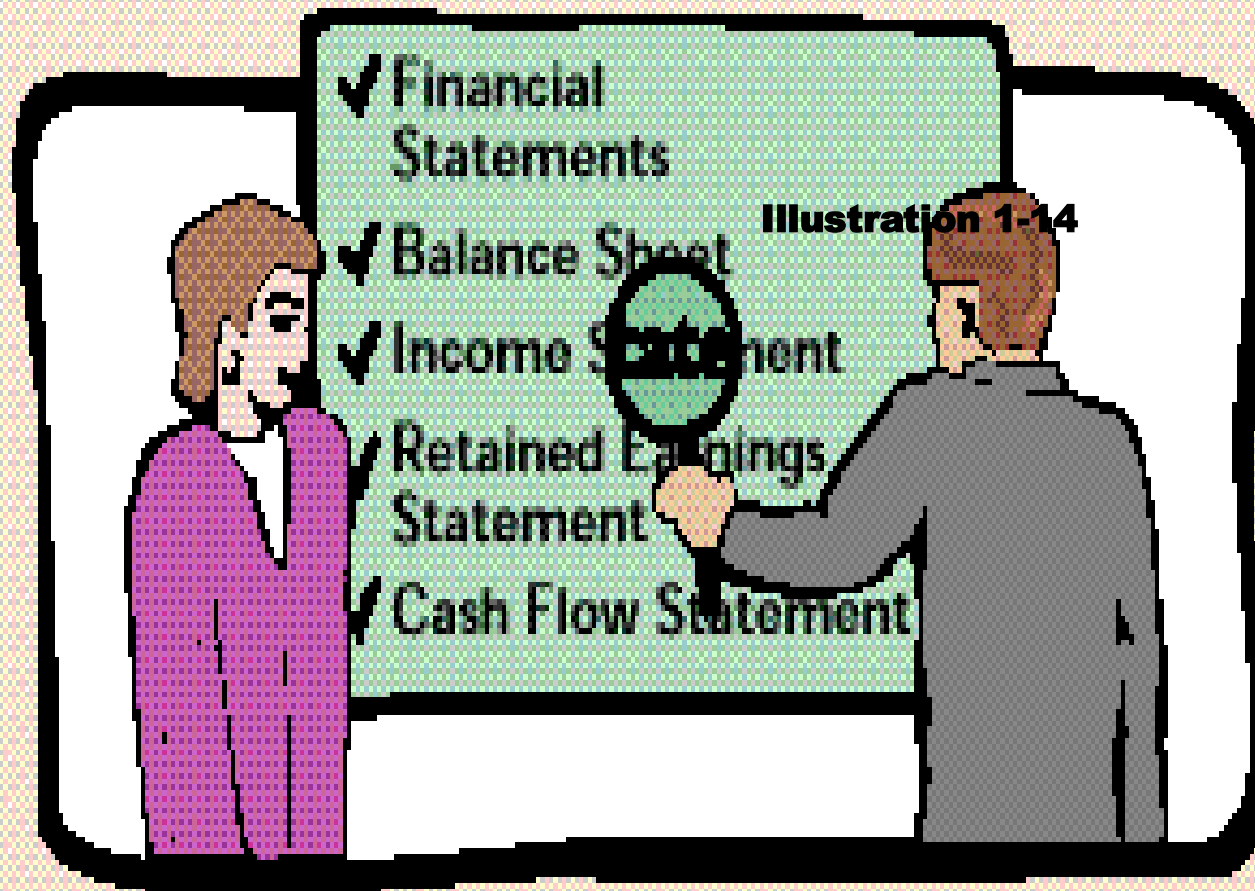
- ✓ Revenue reported when earned
- ✓ Expense reported when incurred
- ✓ Properly matches revenues and expenses in determining net income
- ✓ Requires adjusting entries at end of period
- ✓ It just sounds mean – it really isn't



ACCRUAL VS CASH ACCOUNTING

- ACCRUAL ACCOUNTING - FOCUSES ON THE ECONOMIC IMPACT OF TRANSACTIONS
- FIRM MAXIMIZES ASSETS
- CASH ACCOUNTING - FOCUSES ON WHEN CASH IS RECEIVED AND PAID OUT
- FIRM MAXIMIZES CASH

Full Disclosure Principle



Circumstances and events that make a difference to financial statement users should be disclosed.

Revenue Principle

- When is revenue recognized?
- When it is deemed earned.
- Recognition of revenue and cash receipts do not necessarily occur at the same time.

Revenue Principle

The revenue principle governs two things:

When to record revenue and...

the amount of revenue to record.

Revenue Principle

**Air & Sea
Travel, Inc.**

March 12

I plan to have you
make my travel
arrangements.



Situation 1

**No transaction has occurred.
– Do Not Record Revenue**

**Air & Sea
Travel, Inc.**

April 2



Situation 2

**The client has taken a trip arranged by
Air & Sea Travel. – Record Revenue**

Recognition of Revenues

- Recognition - a test to determine whether revenues should be recorded in the financial statements for a given period
- To be recognized, revenue must be:
 - Earned - goods are delivered or a service is performed
 - Realized - cash or a claim to cash (credit) is received in exchange for goods or services

The Matching Principle

- What is the matching principle?
- It is the basis for recording expenses.
- Expenses are the costs of assets and the increase in liabilities incurred in the earning of revenues.
- Expenses are recognized when the benefit from the expense is received.

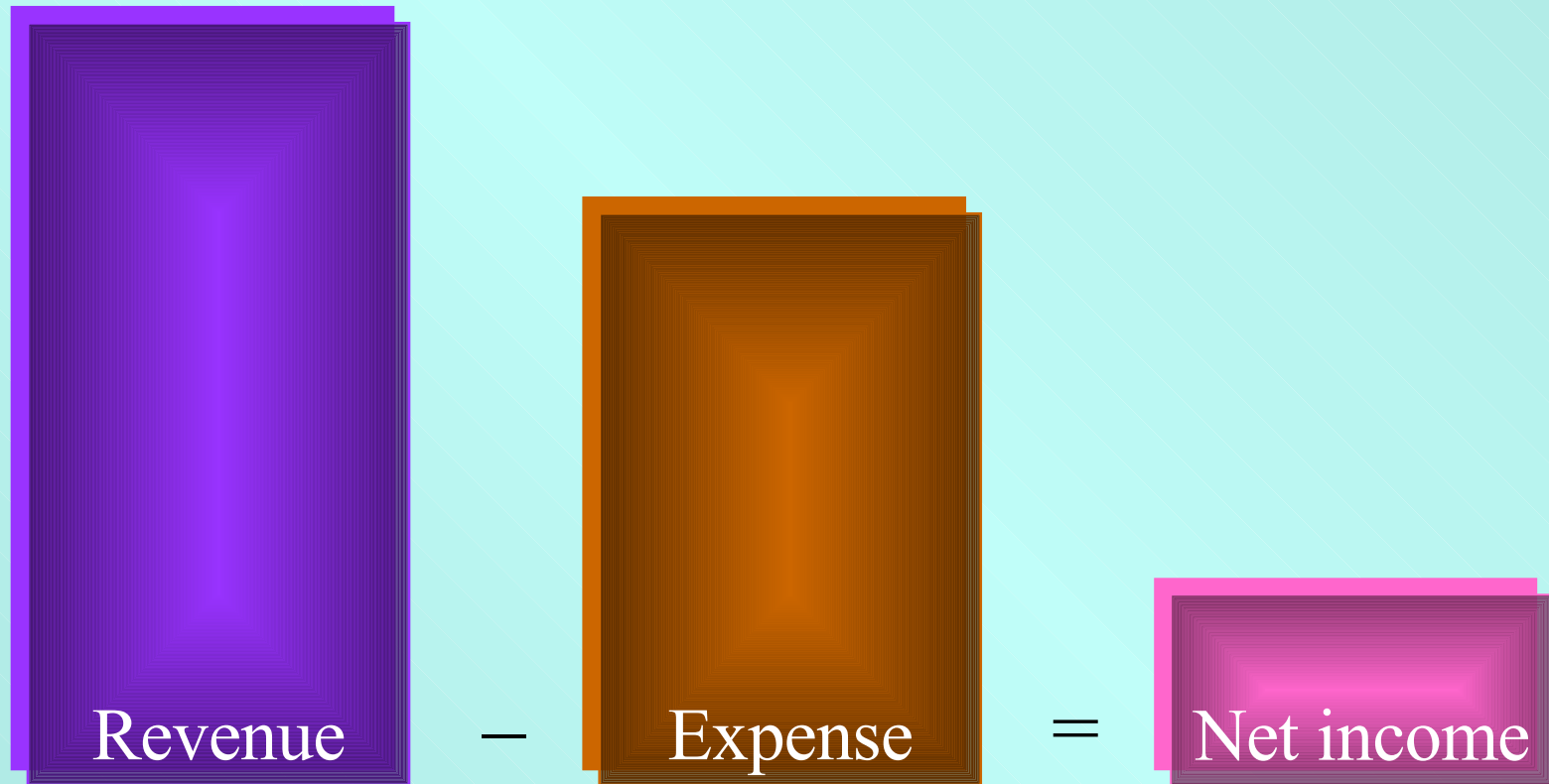
The Matching Principle

It is the basis for recording expenses and includes two steps:

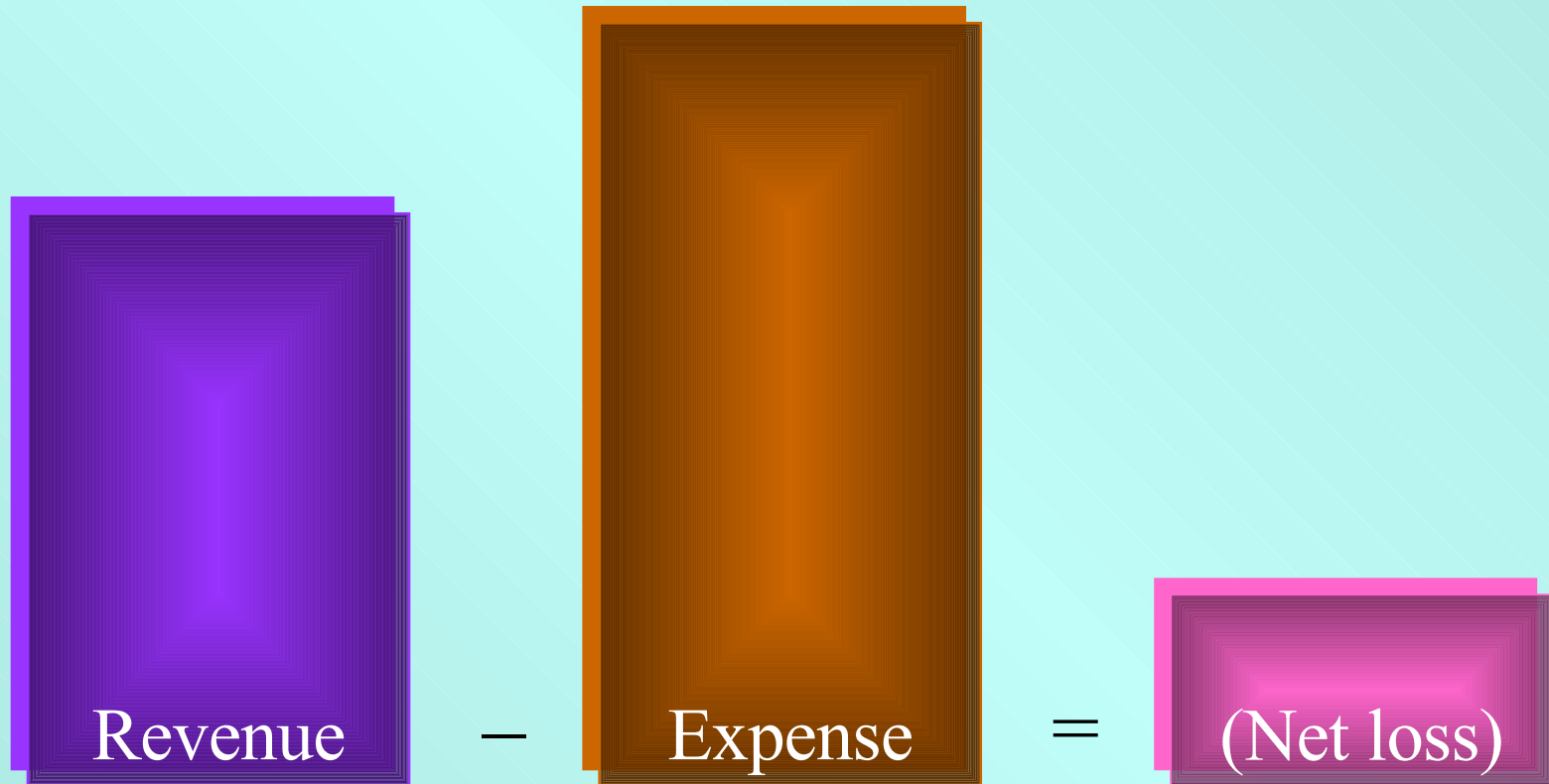
Identify all the expenses incurred during the accounting period.

Measure the expenses and match expenses against revenues earned.

The Matching Principle



The Matching Principle



Example

Matching Expenses with Revenues

May

Revenues	Rs 15,000
Cost of goods sold	<u>8,000</u>
Net income	Rs 7,000

Accounting Period concept

Managers adopt an artificial period of time to evaluate performance.

Accounting Period concept

- It requires that accounting information be reported at regular intervals.

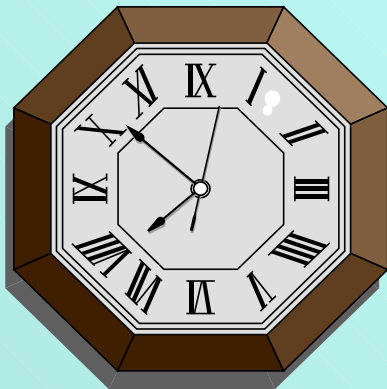
Interacts with the revenue principle and the matching principle

Requires that income be measured accurately each period

Accounting Period concept

The Time-Period Concept

Businesses need regular progress reports, so accountants prepare financial statements for specific periods and at regular intervals.



Monthly

Quarterly

Dual concept

- Accounting information is based on the **double entry system**.
- Under this system, the **two-sided effect** of a transaction is recorded in the appropriate accounts.
- The recording is done by means of a **“debit-credit” convention** (set of rules) applying to all accounts.

The Accounting Equation

Assets are the economic resources of a business that are expected to produce a benefit in the future.

Liabilities are “outsider claims,” or economic obligations payable to outsiders.

Owners’ equity represents the “insider claims” of a business.

The Reliability Concept

The quality of information that assures decision makers that the information captures the conditions or events it purports to represent

- Reliable data are supported by convincing evidence that can be verified by independent parties.
- The impact of events should be measured in a systematic, reliable manner.

The Reliability (Objectivity) concept

Information must
be reasonably
accurate.

Information must
be free from bias.

Information must
report what
actually
happened.

Individuals would
arrive at similar
conclusions using
same data.

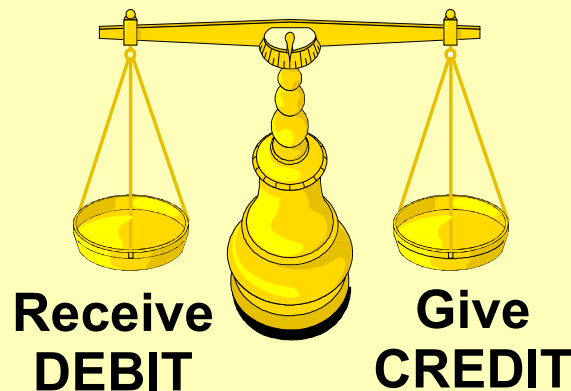
The Double Entry System

Double-Entry Accounting

“ Double-entry accounting is based on a simple concept: each party in a business transaction will receive something and give something in return. In bookkeeping terms, what is received is a debit and what is given is a credit. The T account is a representation of a scale or balance.”

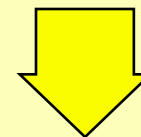
Luca Pacioli
Developer of
Double-Entry
Accounting

Scale or Balance



T account

Left Side
Receive
DEBIT



Right Side
Give
CREDIT



The Double Entry System

Each transaction is recorded with at least:

One debit

One credit

Total debits must equal total credits.

The Double Entry System

- Each transaction must still be analyzed to determine which accounts are involved, whether the accounts increase or decrease, and how much the balance will change.

The Double Entry System

- Some businesses enter into thousands of transactions daily or even hourly.
 - Accountants must carefully keep track of and record these transactions in a systematic manner.
- Accountants use a double-entry accounting system in which at least two accounts are always affected by each transaction.

Classification of Accounts

- There are some asset accounts?
 - Cash
 - Notes Receivable
 - Accounts Receivable
 - Prepaid Expenses
 - Land
 - Building
 - Equipment

Classification of Accounts

- There are some liability accounts?
 - Notes Payable
 - Accounts Payable
 - Accrued Liabilities (for expenses incurred but not paid)
 - Long-term Liabilities (bonds)

Classification of Accounts

- There are some owner's equity accounts?
 - Capital or owner's interest in the business
 - Withdrawals
 - Revenues
 - Expenses

Classification of Accounts

- Real Account = Debit –What comes in
 Credit- what goes out
- Personal Account = Debit –Receiver
 Credit - Giver
- Nominal Account =Debit –Expenses/Losses
 Credit- Incomes/Gains

The Double Entry System

The system records the **two-sided effect** of transactions

Transaction	Two-sided effect
Bought furniture for cash	Decrease in <i>one</i> asset Increase in <i>another</i> asset
Took a loan in cash	Increase in an asset Increase in a liability

The Double Entry System

Note that the accounting equation equality is maintained after recording each transaction.



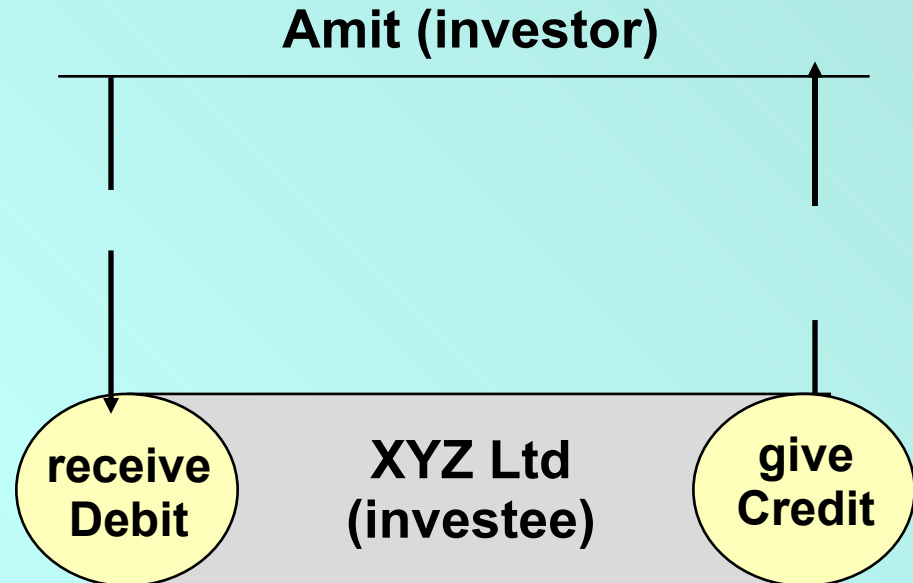
XYZ Ltd. A Sole Proprietorship

“ On November 1, 2002, A started a sole proprietorship called XYZ Ltd. The following double-entry transactions show how amounts received (debits) always equal amounts given (credits).”

Business Transactions

Entry A.

Amit deposits
Rs25,000 in a
bank account for
XYZ Ltd..



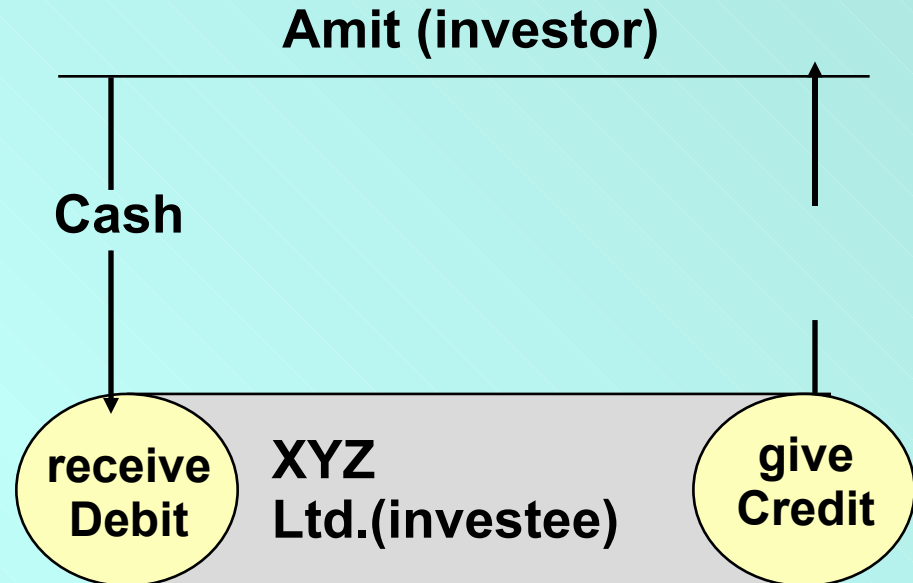
Journal

Date	Description	Debit	Credit
11/1			

Business Transactions

Entry A.

Amit deposits
Rs25,000 in a
bank account for
XYZ Ltd..



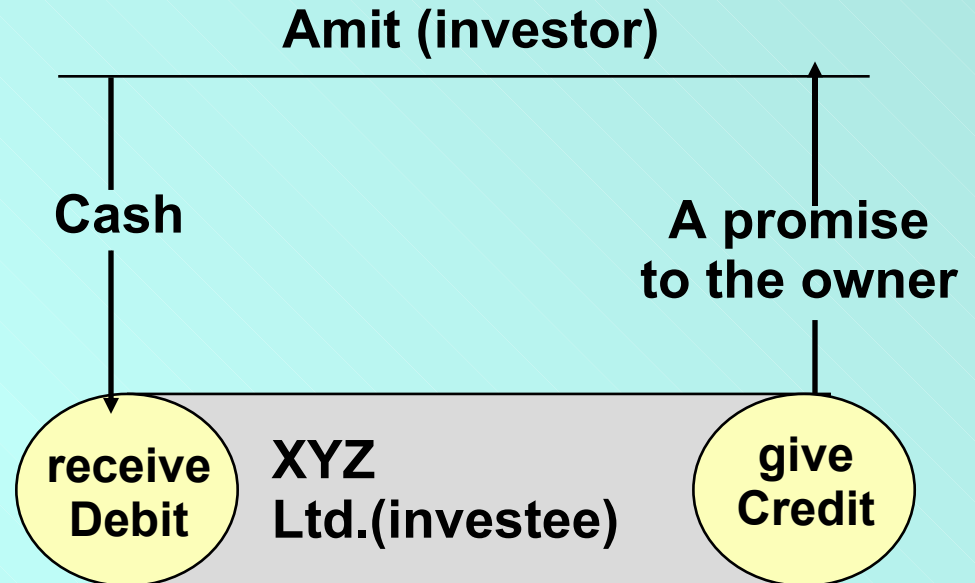
I Journal

Date	Description	Debit	Credit
11/1	Cash	25,000	

Business Transactions

Entry A.

Amit deposits Rs 25,000 in a bank account for XYZ Ltd..



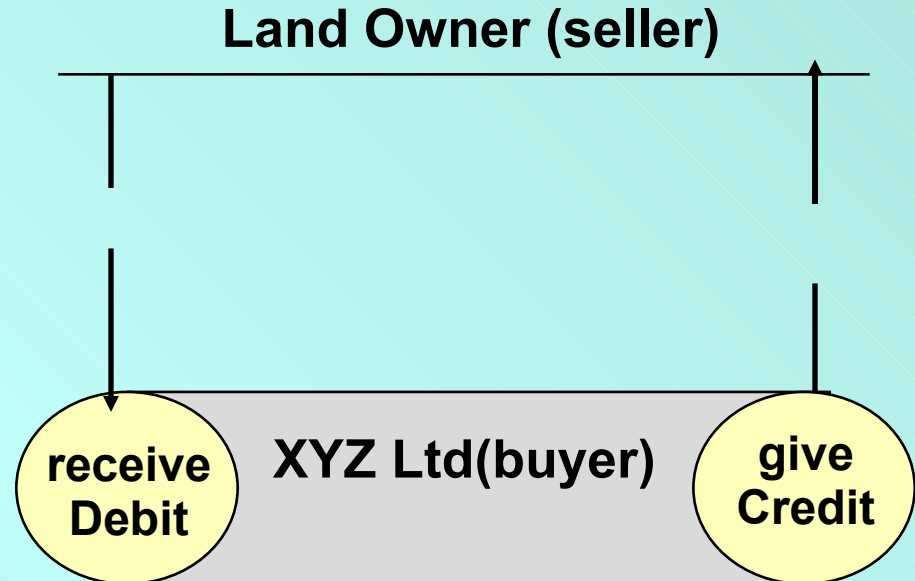
Journal

Date	Description	Debit	Credit
11/1	Cash Amit, Capital	25,000	25,000

Business Transactions

Entry B.

**XYZ Ltd. buys land
for Rs20,000.**



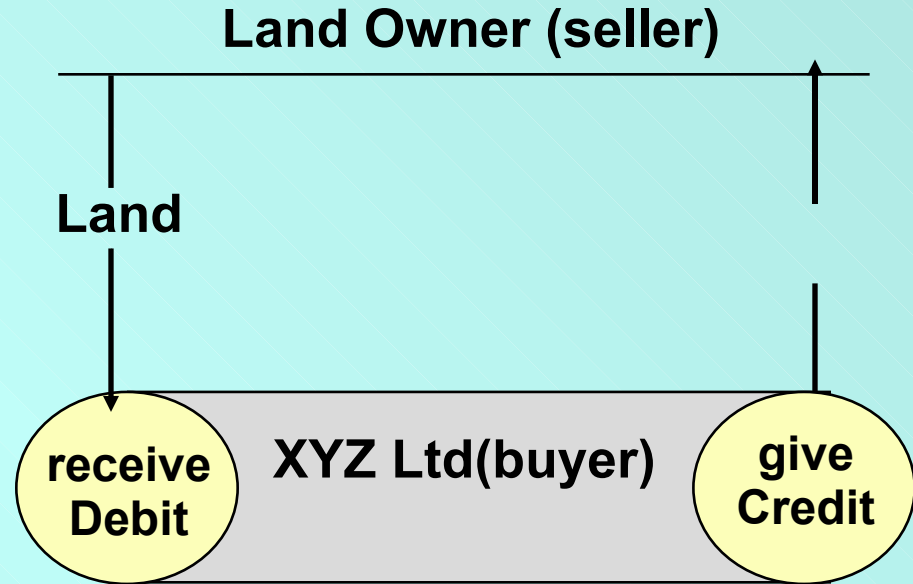
Journal

Date	Description	Debit	Credit
11/5			

Business Transactions

Entry B.

XYZ Ltd. buys land
for Rs20,000.



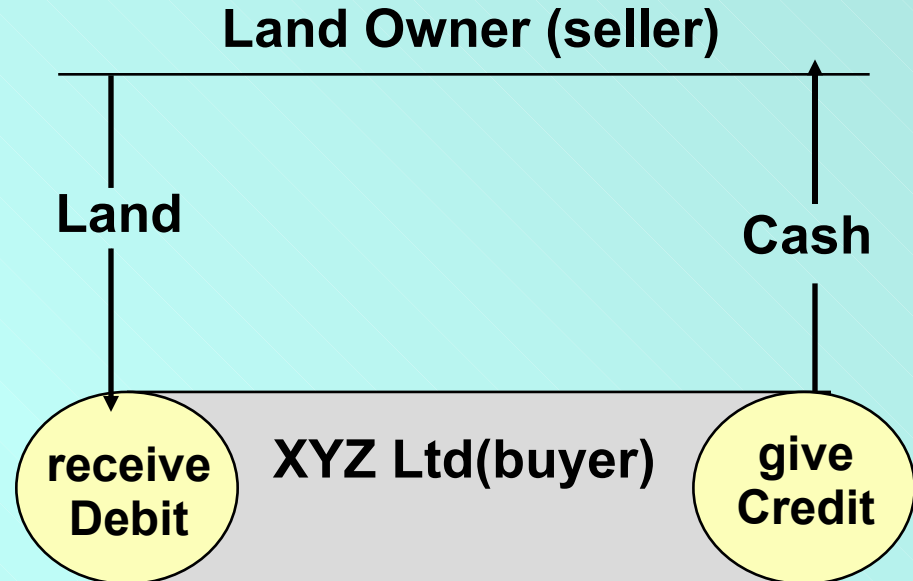
General Journal

Date	Description	Debit	Credit
11/5	Land	20,000	

Business Transactions

Entry B.

XYZ Ltd. buys land
for Rs 20,000.



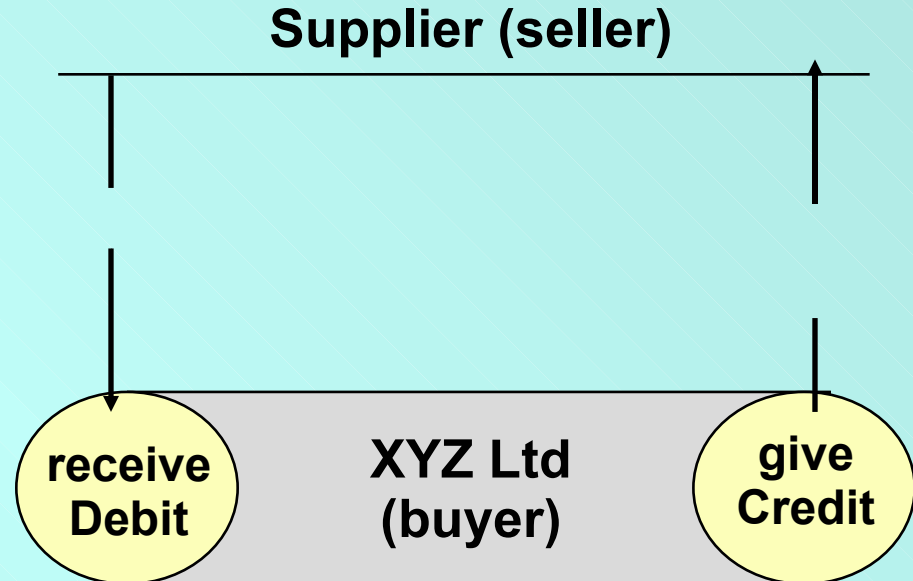
Journal

Date	Description	Debit	Credit
11/5	Land	20,000	
	Cash		20,000

Business Transactions

Entry C.

XYZ Ltd. buys supplies for Rs1,350, agreeing to pay in the near future.



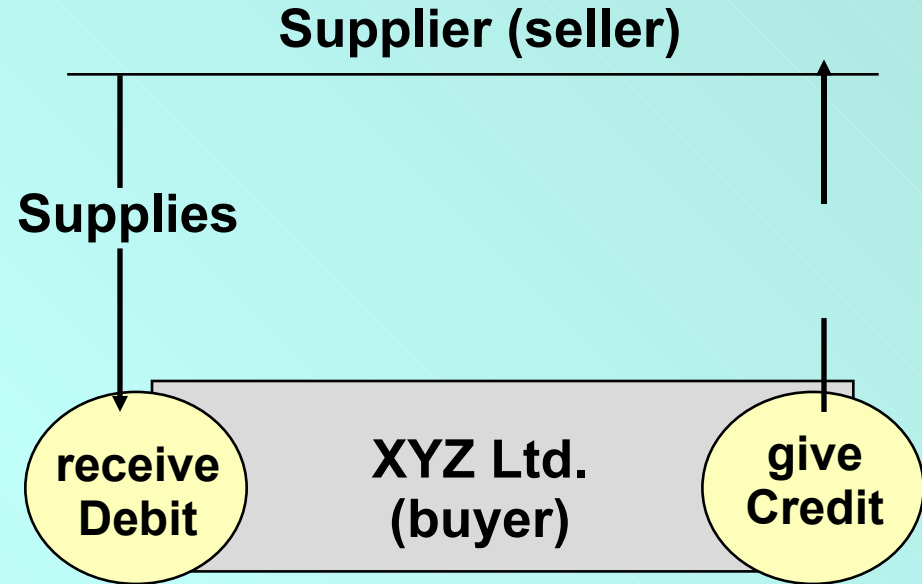
Journal

Date	Description	Debit	Credit
11/10			

Business Transactions

Entry C.

XYZ Ltd. buys goods for Rs1,350, agreeing to pay in the near future.



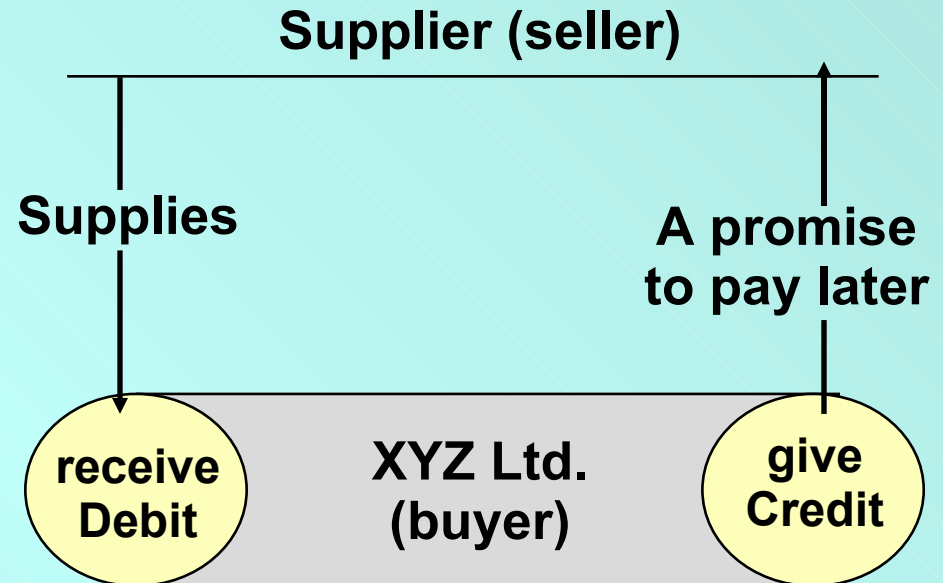
General Journal

Date	Description	Debit	Credit
11/10	Purchases	1,350	

Business Transactions

Entry C.

XYZ Ltd. buys goods for Rs1,350, agreeing to pay in the near future.



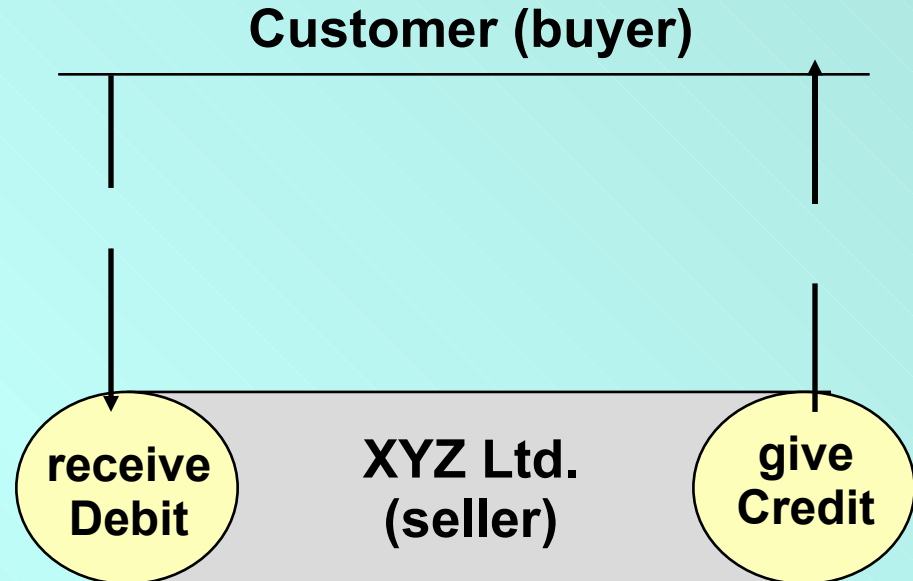
Journal

Date	Description	Debit	Credit
11/10	purchases Accounts Payable	1,350	1,350

Business Transactions

Entry D.

XYZ Ltd. earns fees of Rs7,500, receiving cash.



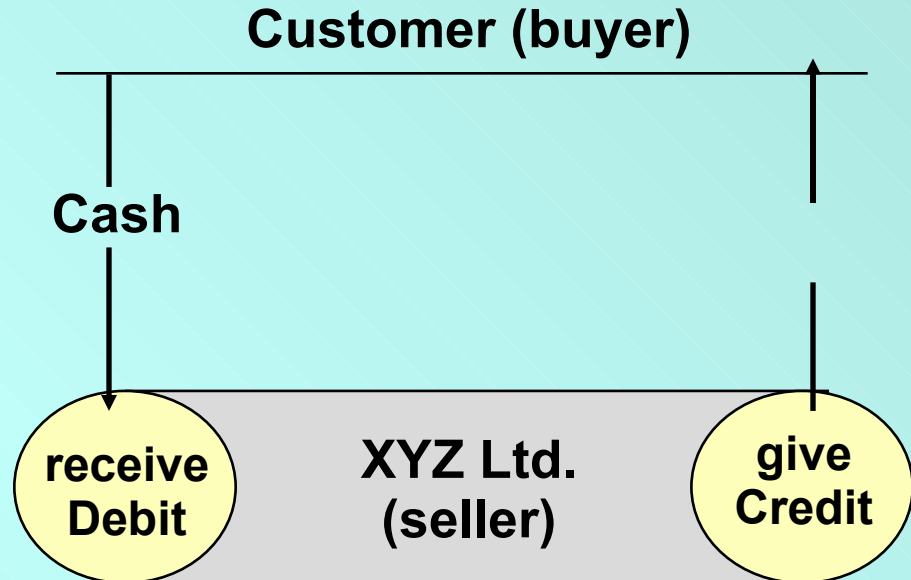
Journal

Date	Description	Debit	Credit
11/18			

Business Transactions

Entry D.

XYZ Ltd. earns fees of Rs7,500, receiving cash.



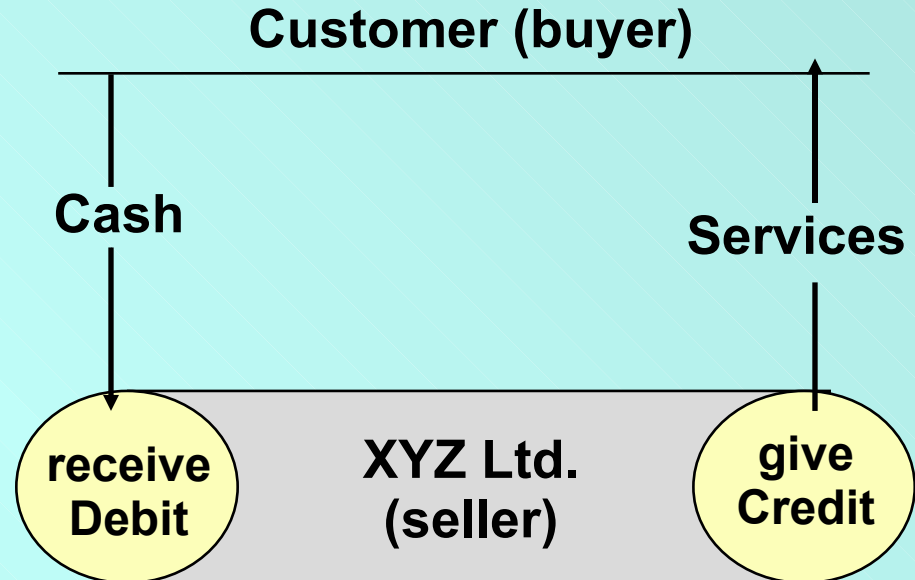
Journal

Date	Description	Debit	Credit
11/18	Cash	7,500	

Business Transactions

Entry D.

XYZ Ltd. earns fees of Rs7,500, receiving cash.



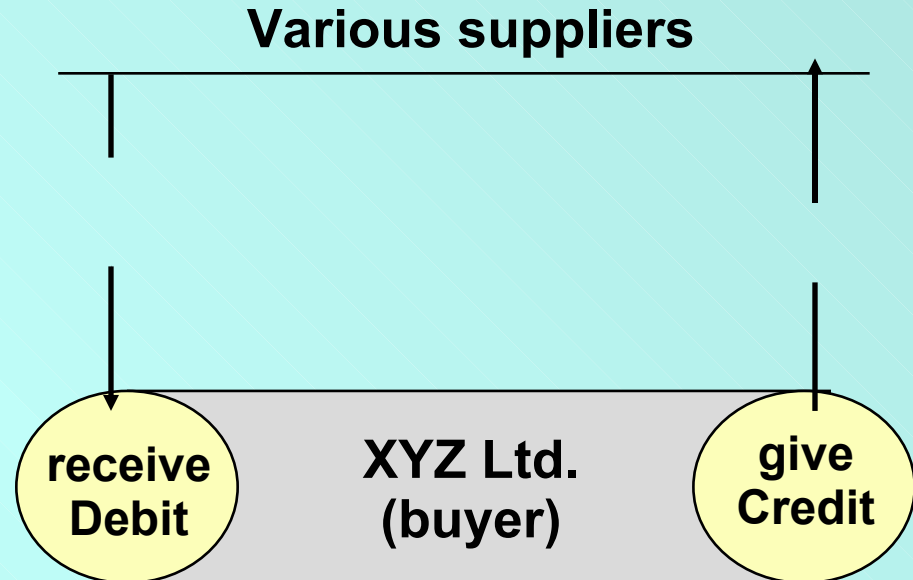
Journal

Date	Description	Debit	Credit
11/18	Cash Fees Earned	7,500	7,500

Business Transactions

Entry E.

XYZ Ltd. paid:
wages, Rs 2,125;
rent, Rs 800;
commissions,
Rs450; and misc,
Rs275.



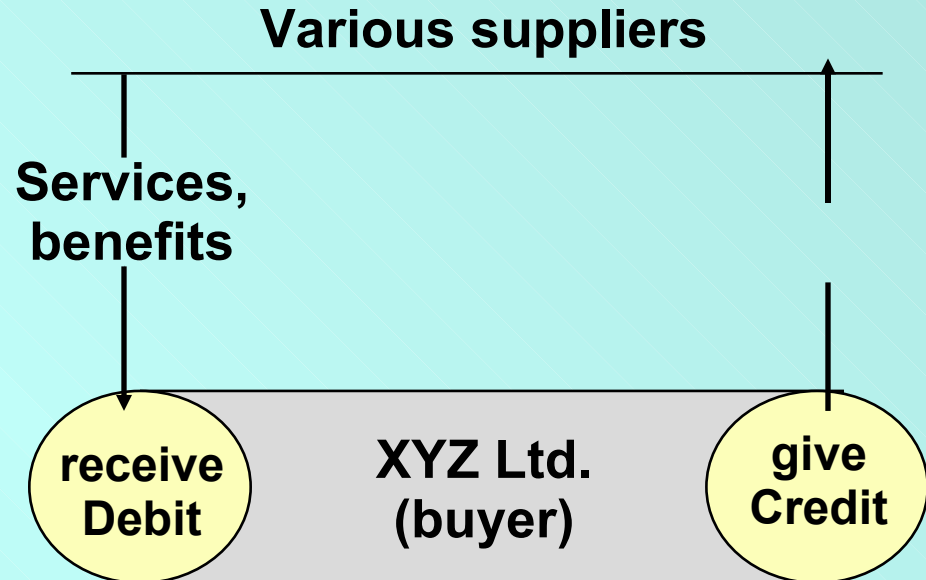
Journal

Date	Description	Debit	Credit

Business Transactions

Entry E.

XYZ Ltd. paid: wages, Rs 2,125; rent, Rs 800; commissions, Rs450; and miscellaneous, Rs275.



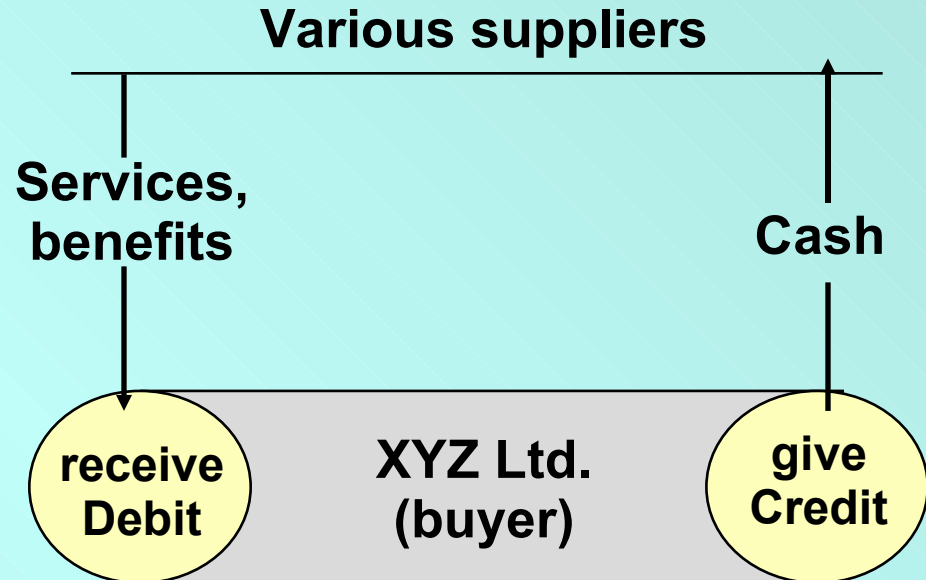
Journal

Date	Description	Debit	Credit
11/18	Wages Expense	2,125	
	Rent Expense	800	
	Commission	450	
	Misc. Expense	275	

Business Transactions

Entry E.

XYZ Ltd. paid:
wages, Rs 2,125;
rent, Rs 800;
commissions, Rs
450; and misc Rs
275.



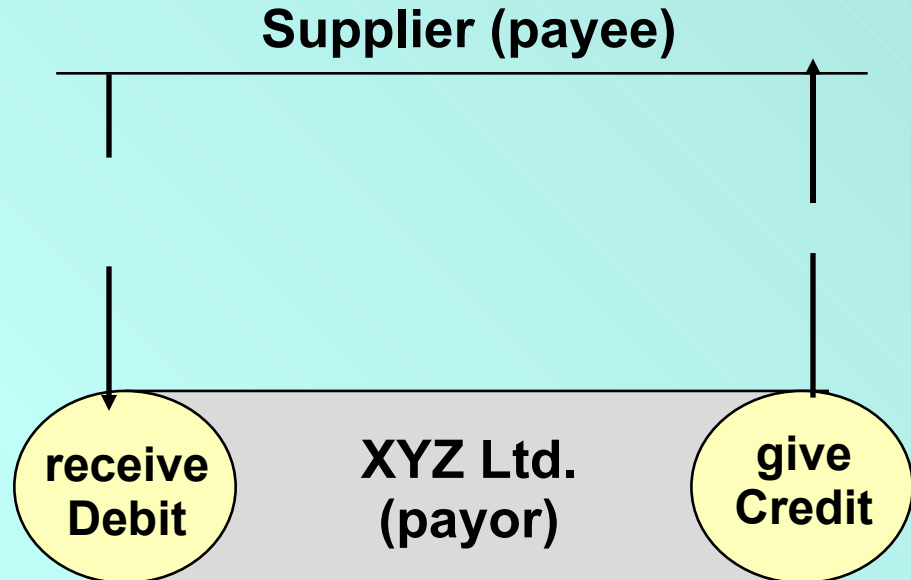
Journal

Date	Description	Debit	Credit
11/18	Wages Expense	2,125	
	Rent Expense	800	
	Commission	450	
	Misc. Expense	275	
	Cash		3,650

Business Transactions

Entry F.

XYZ Ltd. pays
Rs950 to creditors
on account.



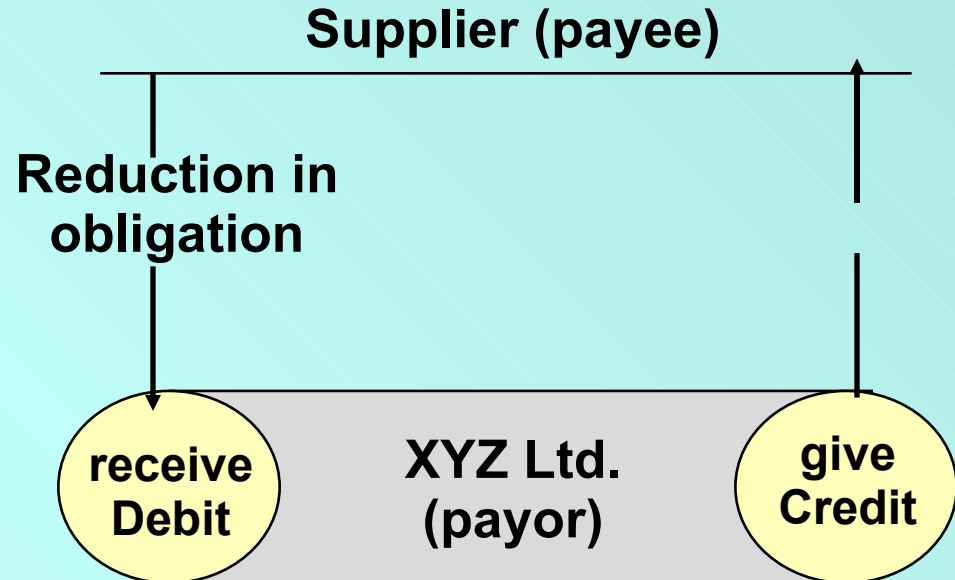
Journal

Date	Description	Debit	Credit
11/30			

Business Transactions

Entry F.

XYZ Ltd. pays
Rs950 to creditors
on account.



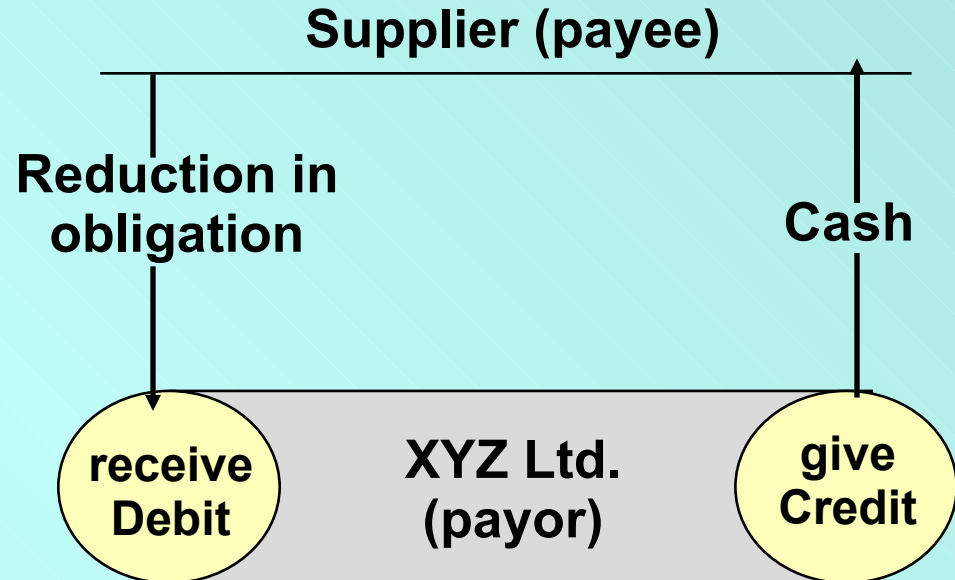
Journal

Date	Description	Debit	Credit
11/30	Accounts Payable	950	

Business Transactions

Entry F.

XYZ Ltd. pays
Rs950 to creditors
on account.



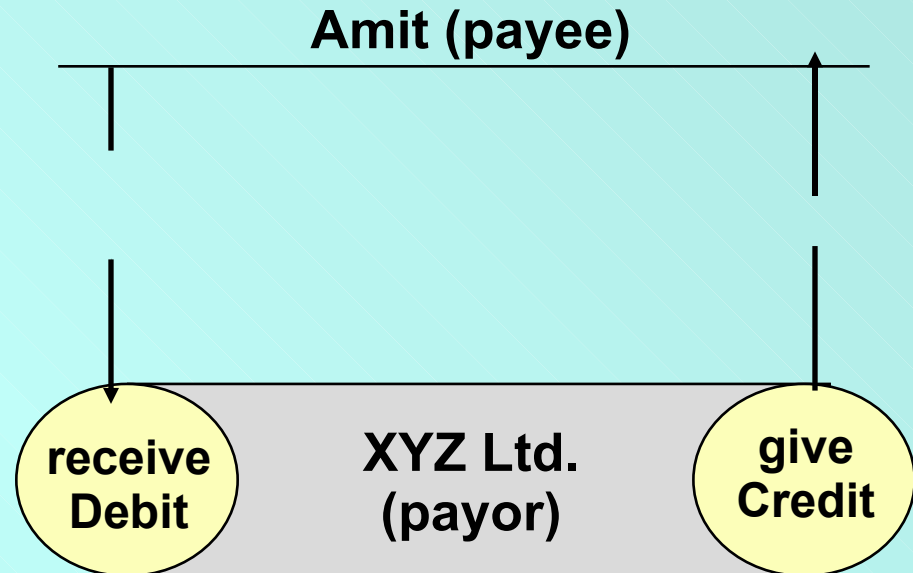
Journal

Date	Description	Debit	Credit
11/30	Accounts Payable Cash	950	950

Business Transactions

Entry H.

Amit withdraws Rs 2,000 in cash.



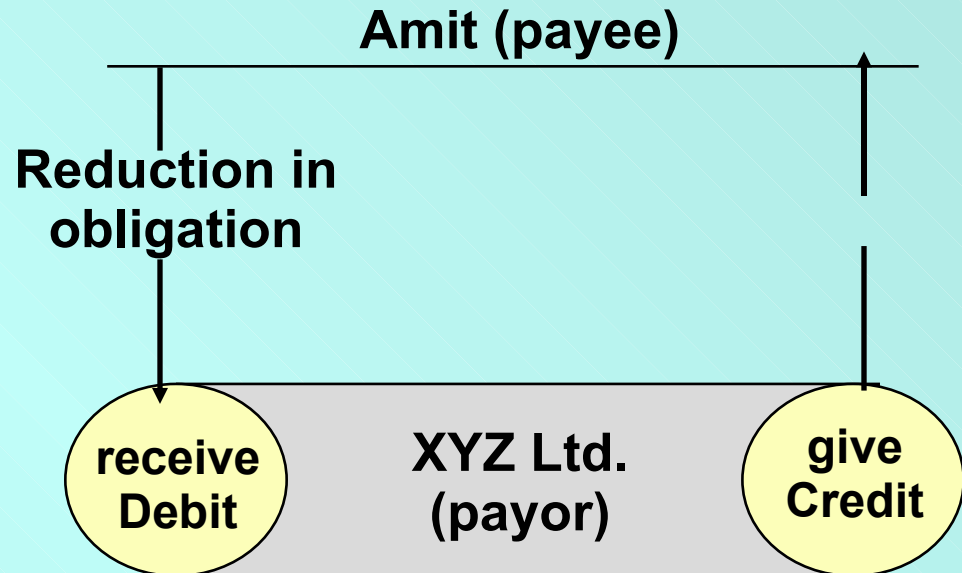
Journal

Date	Description	Debit	Credit
11/30			

Business Transactions

Entry H.

Amit withdraws Rs 2,000 in cash.



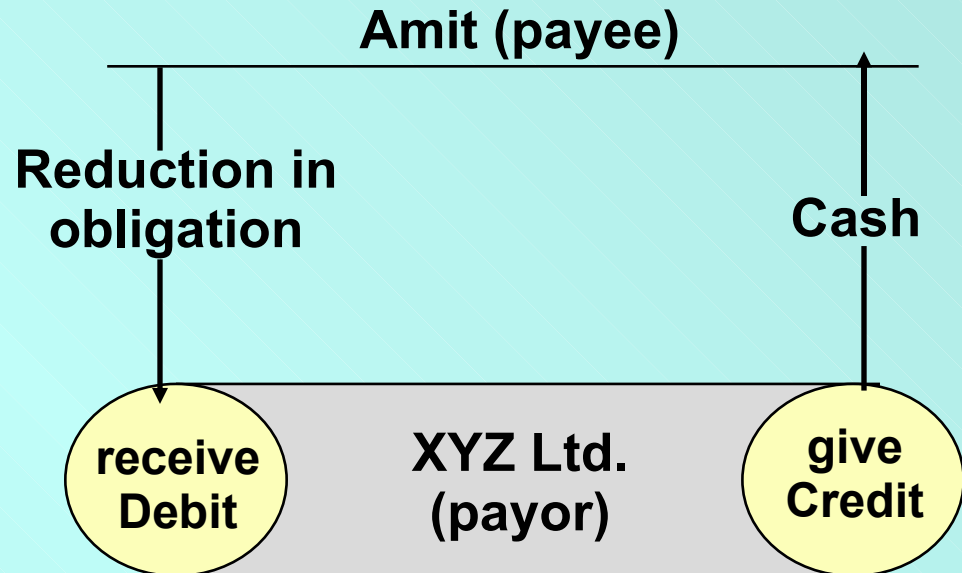
Journal

Date	Description	Debit	Credit
11/30	Amit, Drawing	2,000	

Business Transactions

Entry H.

Amit withdraws Rs 2,000 in cash.



Journal

Date	Description	Debit	Credit
11/30	Amit, Drawing Cash	2,000	2,000

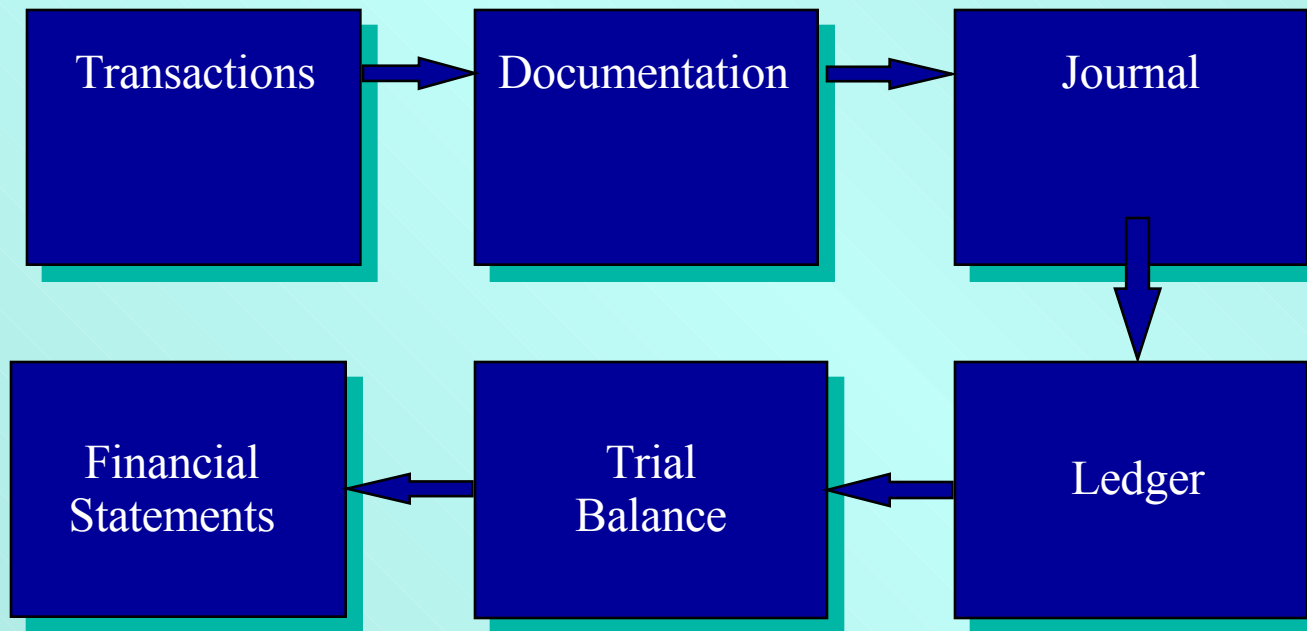
The Accounting Cycle

The Accounting Cycle: Steps

1. Analyze the transaction
2. Journalize the transaction
3. Post the transaction to accounts in **ledger**
4. Prepare the **trial balance**
5. Prepare financial statements

The Recording Process

- The sequence of steps in recording transactions:

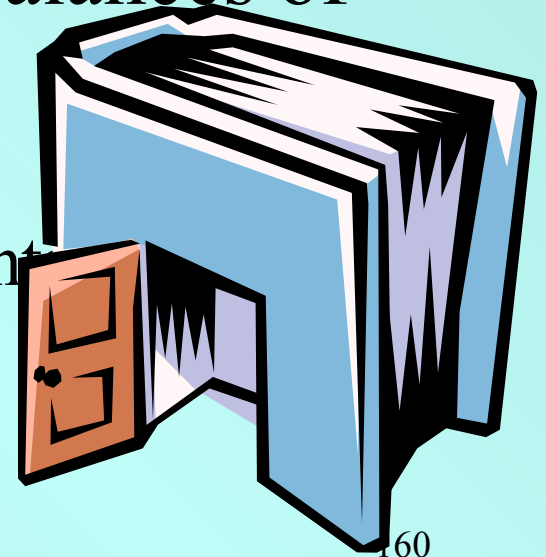


The Recording Process

- The process starts with source documents, which are the supporting original records of any transaction.
 - Examples are sales slips or invoices, check stubs, purchase orders, receiving reports, and cash receipt slips.

The Recording Process

- In the second step, an analysis of the transaction is placed in the book of original entry, which is a chronological record of how the transactions affect the balances of applicable accounts.
 - The most common example is the general journal - a diary of all events (transactions) in an entity's life.



The Recording Process

- In the third step, transactions are entered into the ledger.
 - Remember that a transaction is not entered in just one place; it must be entered in each account that it affects.
 - Depending on the nature of the organization, analysis of the transactions could occur continuously or periodically.

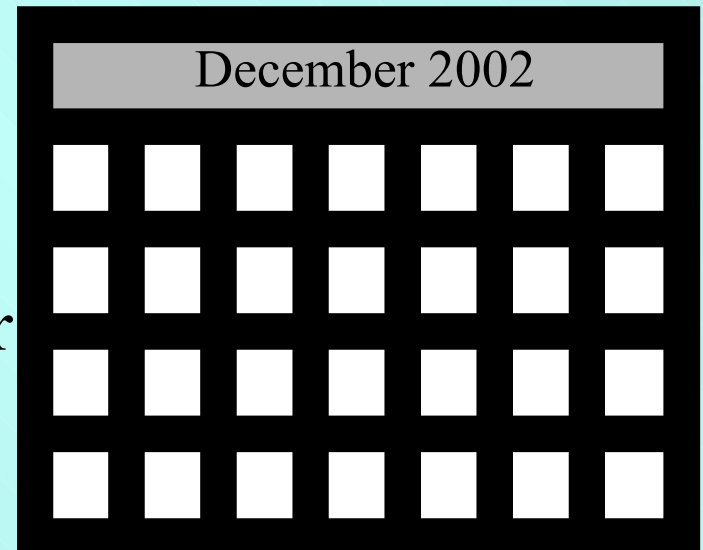
The Recording Process

- The fourth step includes the preparation of the trial balance, which is a simple listing of all accounts from the ledger with their balances.
 - Aids in verifying accuracy and in preparing the financial statements
 - Prepared periodically as necessary



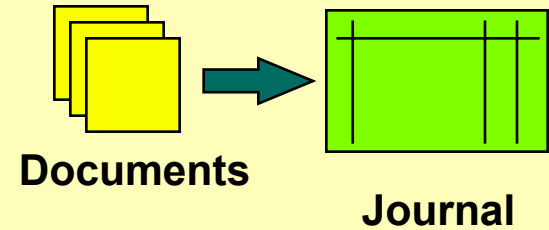
The Recording Process

- In the final step, the financial statements are prepared.
 - Financial statements may be prepared after each quarter of the year.
 - the companies may prepare financial statements at various other intervals to meet the needs of their



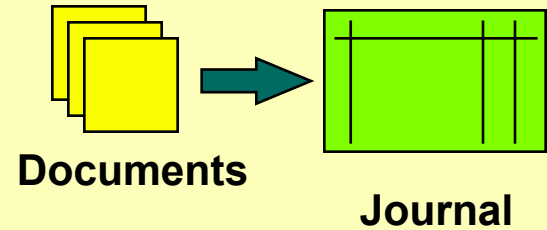
Journal, Ledger, Trial Balance

1. Transactions are analyzed and recorded in journal.

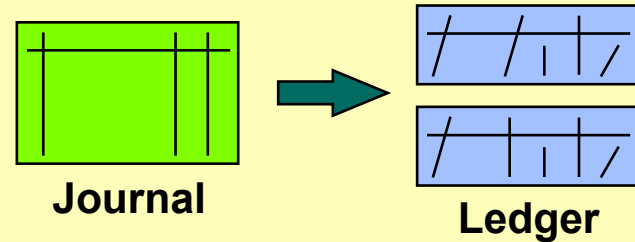


Journal, Ledger, Trial Balance

1. Transactions are analyzed and recorded in journal.

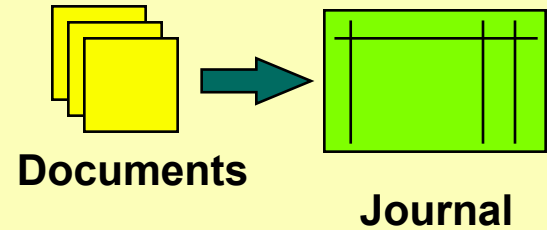


2. Transactions are posted from journal to ledger.

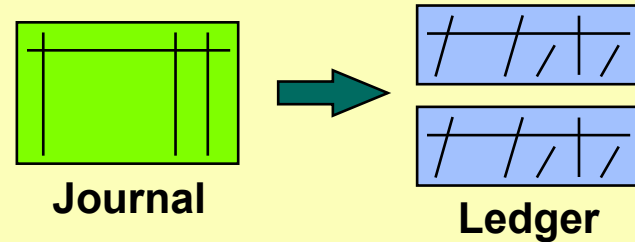


Journal, Ledger, Trial Balance

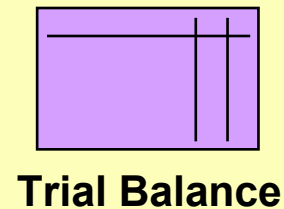
1. Transactions are analyzed and recorded in journal.



2. Transactions are posted from journal to ledger.

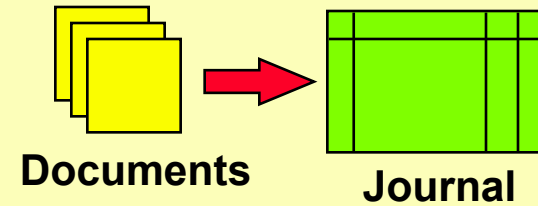


3. Trial balance is prepared.



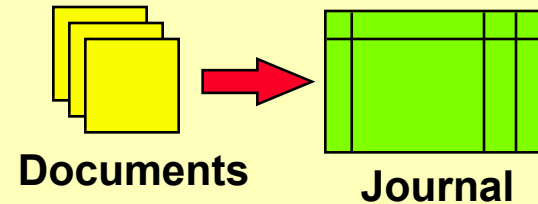
Manual Accounting Cycle

1. Transactions are analyzed and recorded in journal.

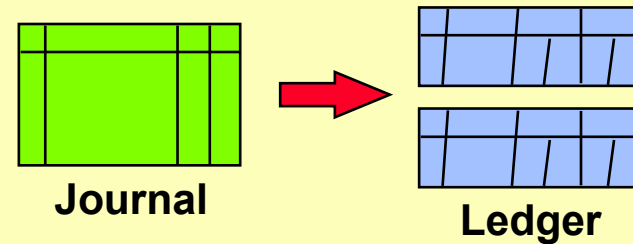


Manual Accounting Cycle

1. Transactions are analyzed and recorded in journal.

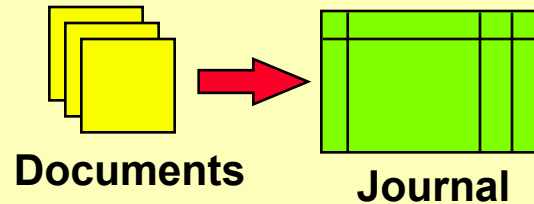


2. Transactions are posted from journal to ledger.

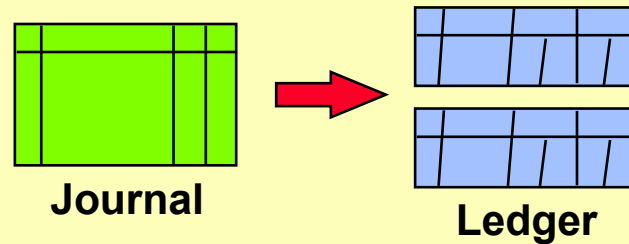


Manual Accounting Cycle

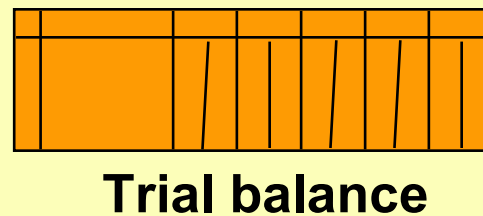
1. Transactions are analyzed and recorded in journal.



2. Transactions are posted from journal to ledger.

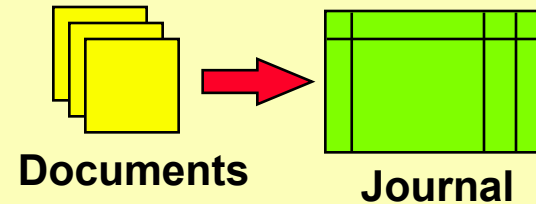


3. Trial balance is prepared,

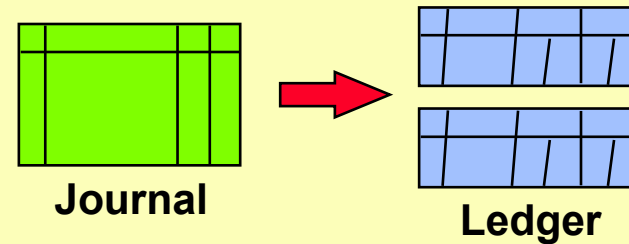


Manual Accounting Cycle

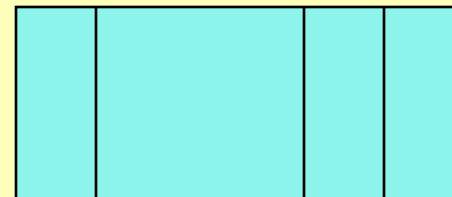
1. Transactions are analyzed and recorded in journal.



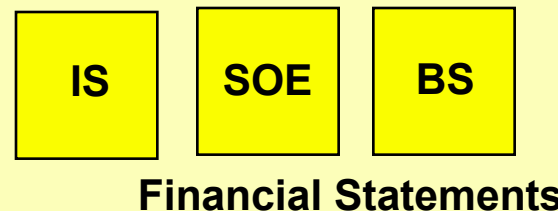
2. Transactions are posted from journal to ledger.



3. Trial balance is prepared,

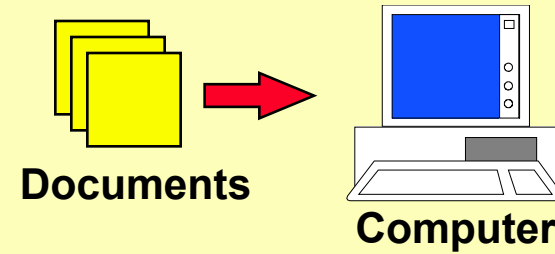


4. Financial statements are prepared and distributed.



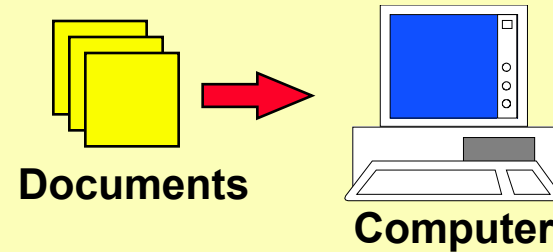
Computerized Accounting Cycle

1. Transactions are analyzed and entered in the computer.

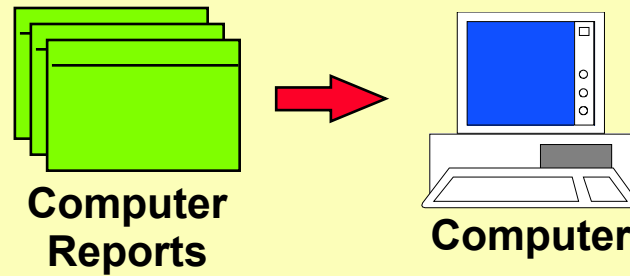


Computerized Accounting Cycle

1. Transactions are analyzed and entered in the computer.

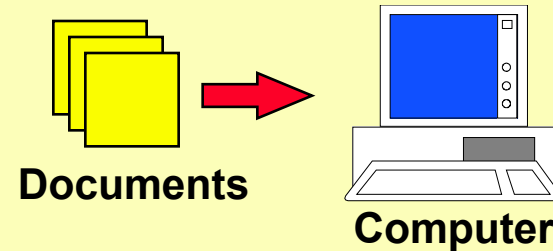


2. Preliminary reports are analyzed, adjustments are prepared and entered in the computer.

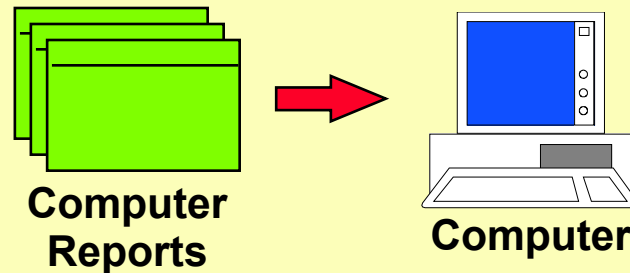


Computerized Accounting Cycle

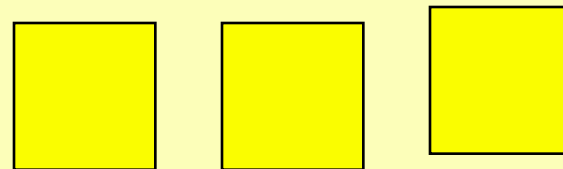
1. Transactions are analyzed and entered in the computer.



2. Preliminary reports are analyzed, adjustments are prepared and entered in the computer.

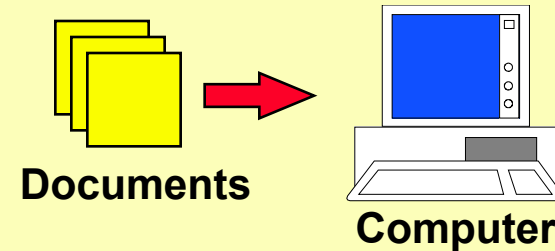


3. Financial statements are printed and distributed.

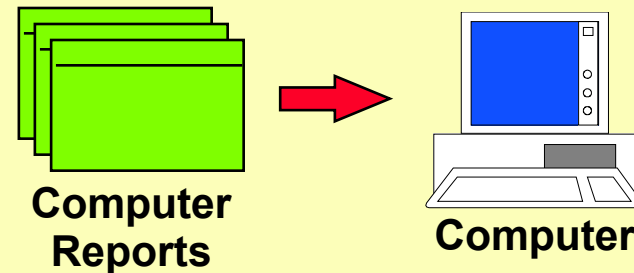


Computerized Accounting Cycle

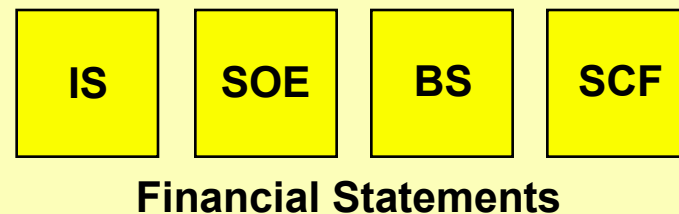
1. Transactions are analyzed and entered in the computer.



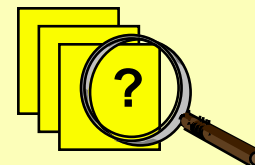
2. Preliminary reports are analyzed, adjustments are prepared and entered in the computer.



3. Financial statements are printed and distributed.



4. Reports are analyzed and interpreted for decision-making purposes.



JOURNAL

Journal

- What is a journal?
- It is a list in chronological order of all the transactions for a business.
 - 1 Identify transaction from source documents.
 - 2 Specify accounts affected.
 - 3 Apply debit/credit rules.
 - 4 Record transaction with description.

Journal entry

- Journal entry - an analysis of the effects of a transaction on the accounts, usually accompanied by an explanation of the transaction
 - This analysis identifies the accounts to be debited and credited.

Journal entry

- What does a journal entry include?
 - date of the transaction
 - title of the account debited
 - title of the account credited
 - amount of the debit and credit
 - description of the transaction (narration)

**Record
transactions
in the journal.**

Journalizing

- Journalizing –

It is the process of entering transactions into the journal

JOURNALIZING TRANSACTIONS

- THE JOURNAL IS A CHRONOLOGICAL LISTING OF TRANSACTIONS.
- ENTER DATE IN FIRST COLUMN
- IDENTIFY APPROPRIATE ACCOUNTS
- ENTER THE TITLE OF THE ACCOUNT DEBITED
- ENTER THE TITLE OF THE ACCOUNT TO BE CREDITED
- INSERT APPROPRIATE AMOUNTS IN DEBIT AND CREDIT COLUMN
- INSERT A BRIEF DESCRIPTION OF TRANSACTION

Recording Transactions

- On April 2, Garge invested Rs 30,000 in Gay GillenTravel.
- What is the journal entry?

Date	Particulars	Debit	Credit
April		Rs	
2	Cash Account Dr	30,000	
	To Garge Capital		
	30,000 (Received initial investment from owner)		

Types of journal entries:

- Types of journal entries:
 - Simple entry - an entry for a transaction that affects only two accounts
 - Compound entry - an entry for a transaction that affects more than two accounts
- Remember: whether the entry is simple or compound, the debits (left side) and credits (right side) *must always* equal.

Ledger

Ledger

- What is a ledger?
- It is a digest of all accounts utilized by an entity during an accounting period.

Loose leaf
pages

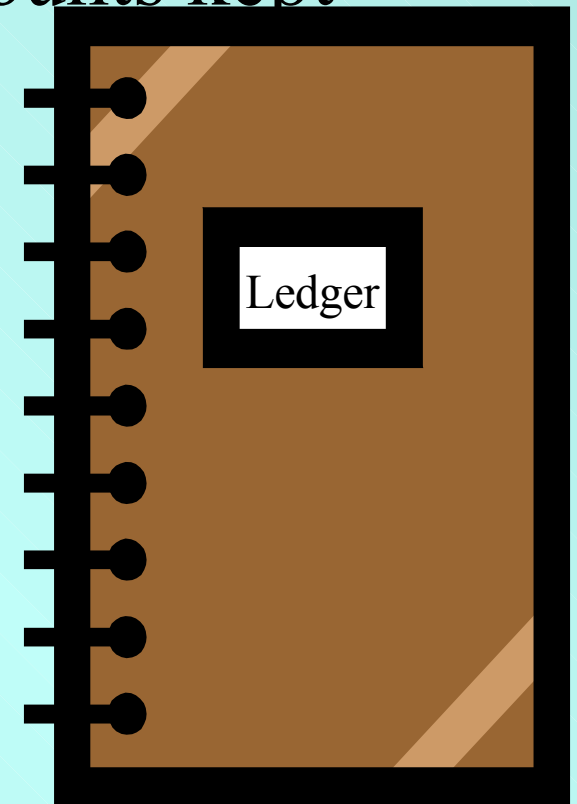
Computer
printout

Bound
books

Cards

Ledger Accounts

- Ledger - a group of related accounts kept current in a systematic manner
 - Think of a ledger as a book with one page for each account.



Ledger

Ledger

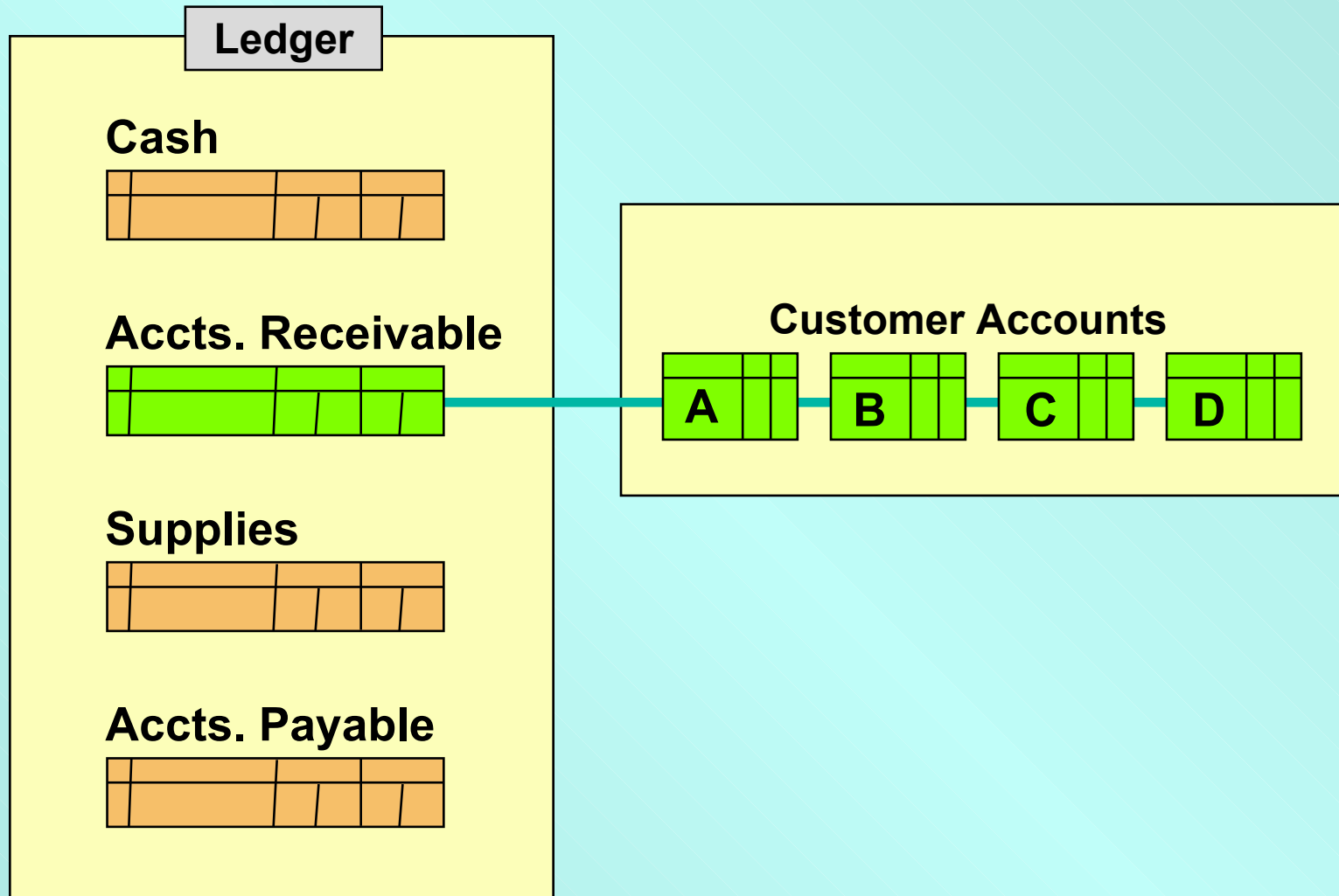
Cash

Accts. Receivable

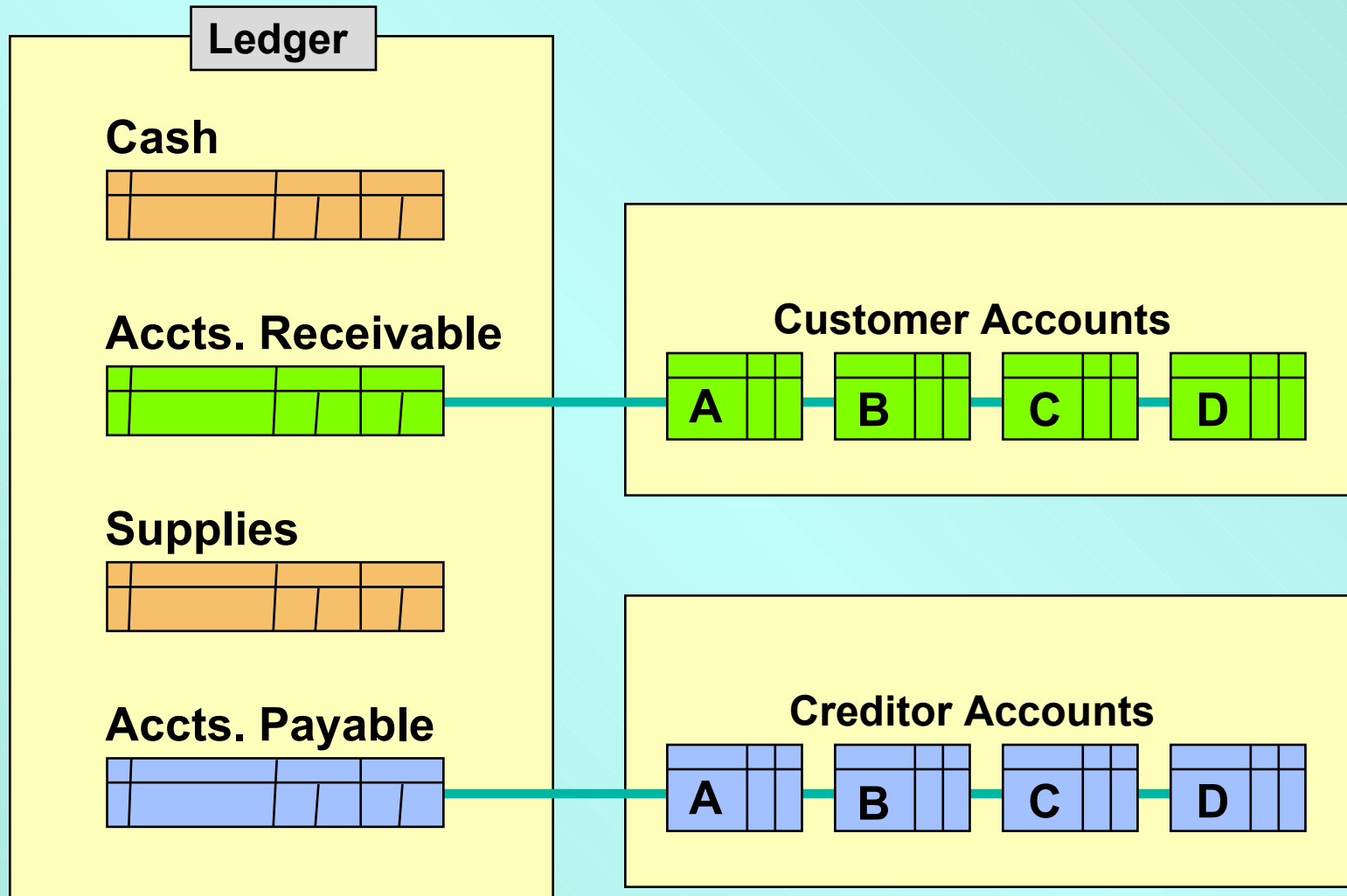
Supplies

Accts. Payable

Ledger

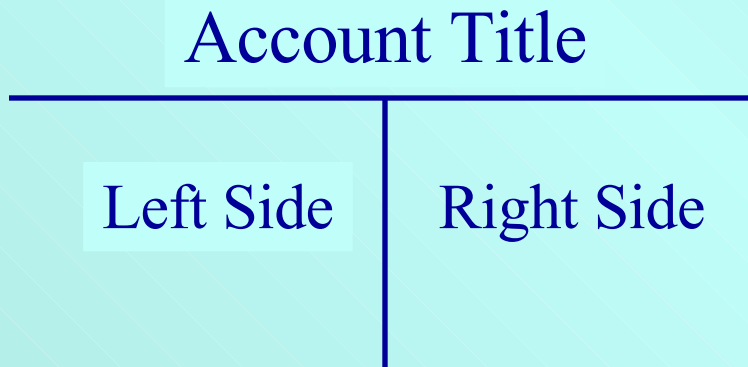


Ledger



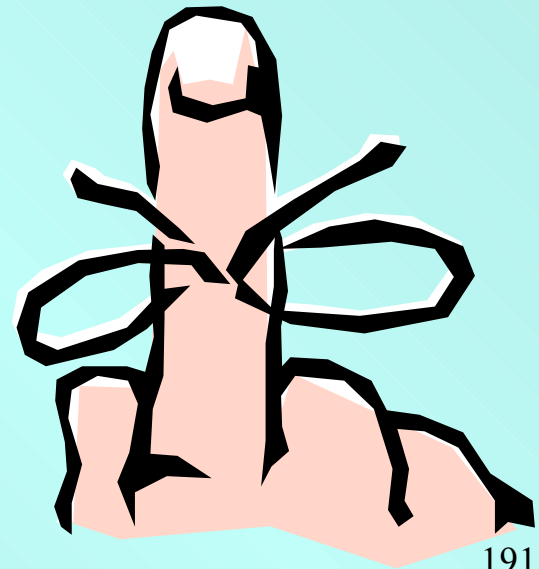
Ledger Accounts

- A simplified version of a ledger account is called the T-account.
 - They allow us to capture the essence of the accounting process without having to worry about too many details.
 - The account is divided into two sides for recording increases and decreases in the accounts.



Debits and Credits

- Debit (dr.) - an entry or balance on the left side of an account
- Credit (cr.) - an entry or balance on the right side of an account
- Remember:
 - Debit is *always* the left side!
 - Credit is *always* the right side!



**Post from the
journal
to the ledger.**

Posting

- What is posting?
- It is the transfer of information from the journal to the appropriate accounts in the ledger.

POSTING TO THE LEDGER

- POSTING REFERS TO TRANSFERRING THE INFORMATION IN A JOURNAL ENTRY TO THE APPROPRIATE LEDGER ACCOUNT
- ENTER DATE
- ENTER AMOUNT IN PROPER DEBIT OR CREDIT COLUMN
- ENTER JOURNAL SOURCE INFO

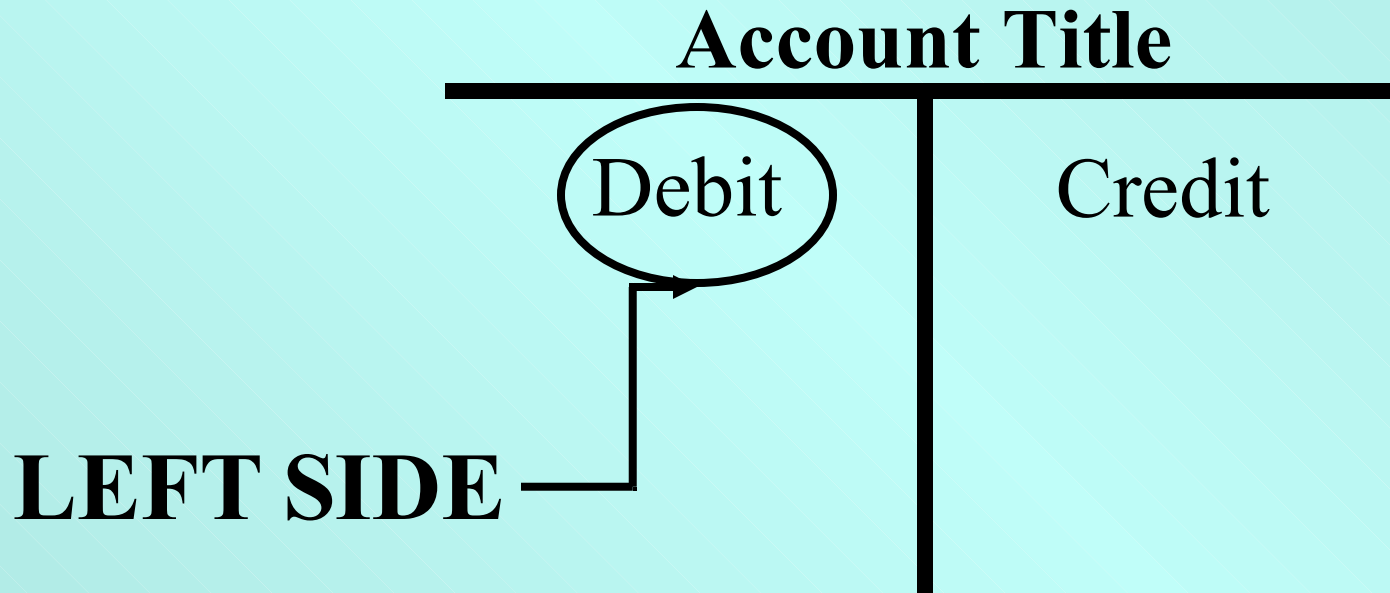
Proforma for Account

Debit

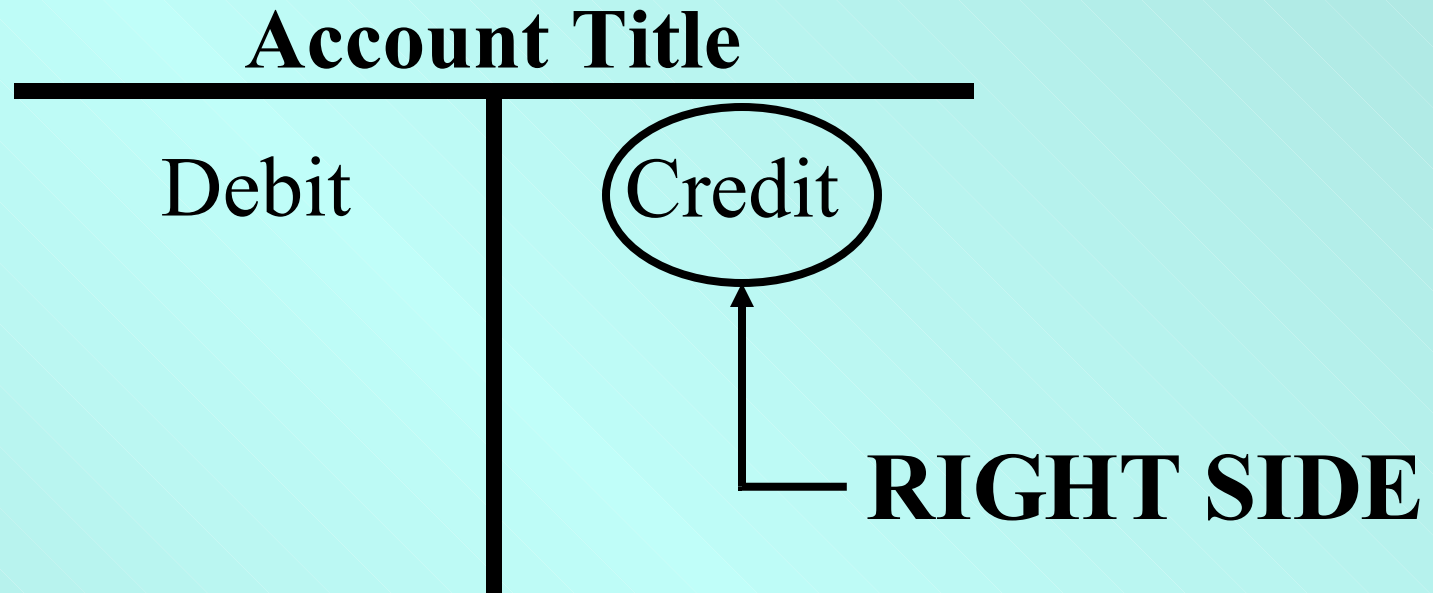
Credit

Date	Particulars	L.f	Amt.	Date	Particulars	L.f	Amt.

The Account



The Account



Ledger Accounts

- Balance - difference between total left-side amounts and total right-side amounts at any particular time
 - Assets have left-side balances.
 - Increased by entries to the left side
 - Decreased by entries to the right side
 - Liabilities and Owners' Equity have right-side balances.
 - Decreased by entries to the left side
 - Increased by entries to the right side

Details of Journals and Ledgers

Journal

Page 1

Date	Particulars	Debit	Credit
April 2	Cash	30,000	
	Garge Capital		30,000
	(Received initial investment from owner)		

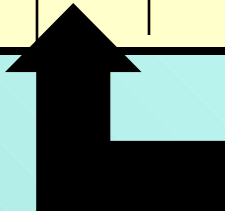
Posting

Debit

Cash Account

Credit

Date	Ref.	Particulars	Amount	Date	Ref.	Particulars	Amount
April 2	1	To G. Cap	30,000				



Insert the number of the journal page.

Recording and Posting an Entry

Journal

Page 1

Date	Description	L.F.	Debit	Credit
12/1	Prepaid Insurance Cash		2,400	2,400

1. Analyze and record the transaction as shown.
2. Post the debit side of the transaction.
3. Post the credit side of the transaction.

Recording and Posting an Entry

Journal

Page 1

Date	Description	L.f	Debit	Credit
12/1	Prepaid Insurance Cash	15	2,400	2,400

Ledger

Prepaid Insurance Account

Dr Date	Particulars	Fol	Amt.	Date	Particulars	Fol	Cr Amt.
		.				.	
12/1	To Cash	1	2400				

Recording and Posting an Entry

Journal

Page 1

	Debit	Date Credit	Description	L.f.
12/1	Prepaid Insurance	15	2,400	
	Cash	11		2,400

1

Ledger

Dr.

4

Prepaid insurance Account

Page No.15

Cr.

Date	Particulars	Fol.	Amt.	Date	Particulars	Fol.	Amt.
12/1	To Cash	1	2400				
							203

TRIAL BALANCE

TRIAL BALANCE

What is a Trial balance?

- It is an internal document.
- It is a listing of all the accounts with their related balances.
- It provide a check on accuracy by showing whether total debits equal total credits.

TRIAL BALANCE

- A listing of all accounts with balances at the end of the accounting period after all transactions have journalized and posted
- Purpose
 - to determine that debits = credits
 - to identify accounts to be adjusted

TRIAL BALANCE

- A listing of all accounts with balances at the end of the accounting period after all transactions have journalized and posted
- To determine that debits = credits

Preparing the Trial Balance

- The purposes of the trial balance:
 - To help check on accuracy of posting by proving whether the total debits equal the total credits
 - To establish a convenient summary of balances in all accounts for the preparation of formal financial statements



Preparing the Trial Balance

- The trial balance is usually prepared with the balance sheet accounts first, followed by the income statement accounts.
- An example of a trial balance:

Account Number	Account Title	Debit	Credit
			(Rs)
100	Cash	3,50,000	3,50,000
130	Merchandise inventory	150,000	150,000
202	Note payable	100,000	100,000
300	Paid-in capital	400,000	400,000
		500,000	500,000

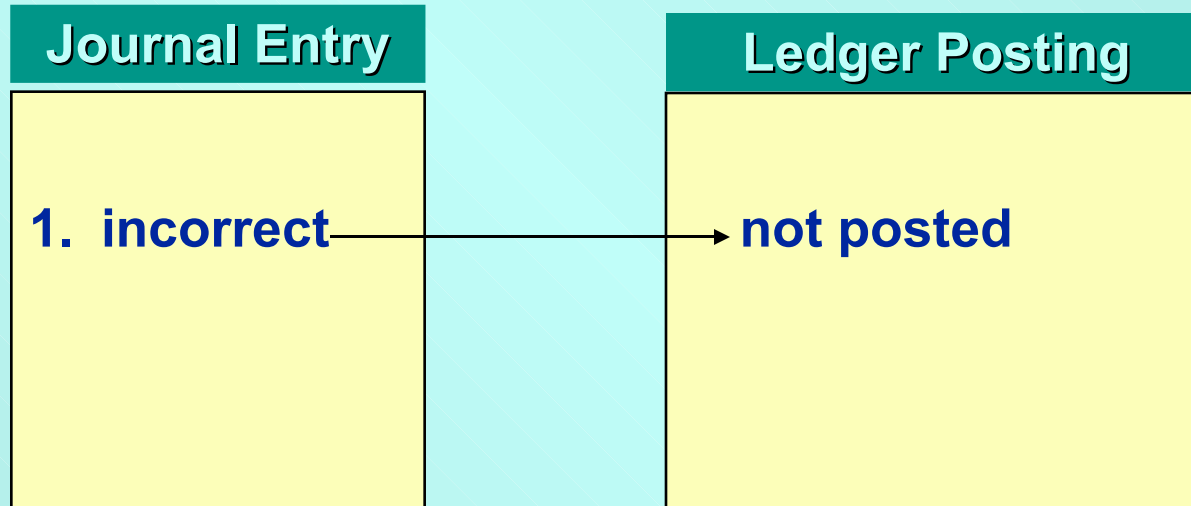
Locating Trial Balance Errors

- Note that a trial balance may balance even when errors were made in recording or posting.
 - A transaction may be recorded as different amounts in two different accounts.
 - A transaction may be recorded in a wrong account.
- In both situations, the total debits will still equal total credits on the trial balance.

Dr. = Cr.

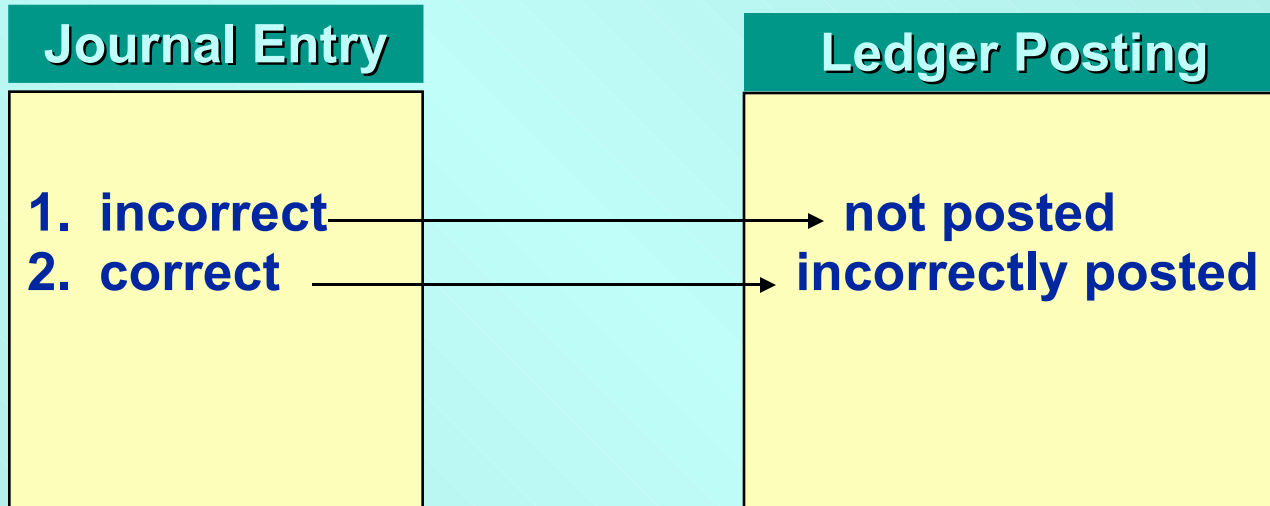
Correcting Errors

Three Types of Errors



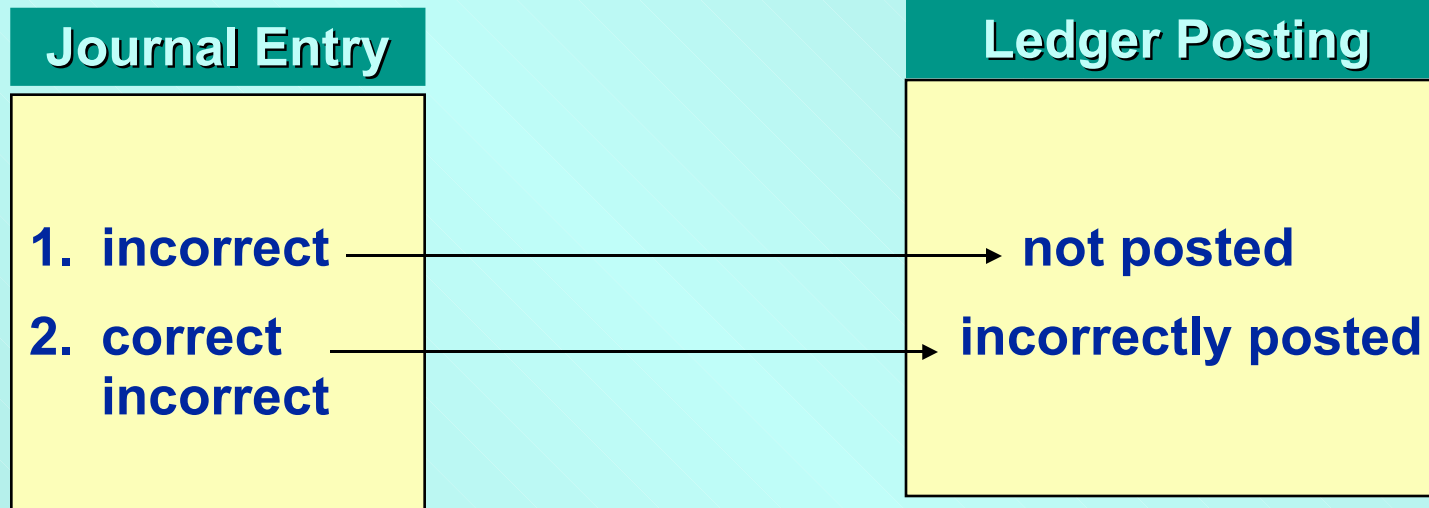
Correcting Errors

Three Types of Errors



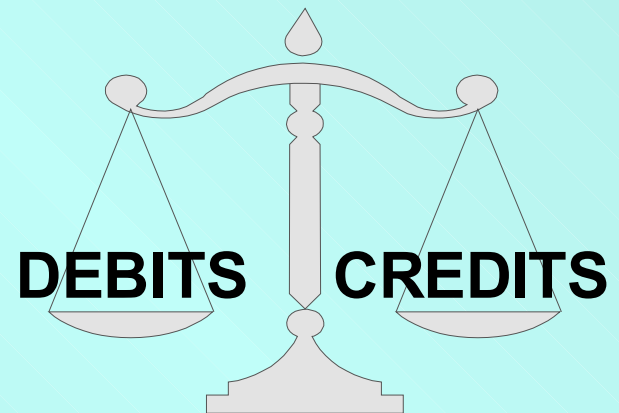
Correcting Errors

Three Types of Errors



Locating Trial Balance Errors

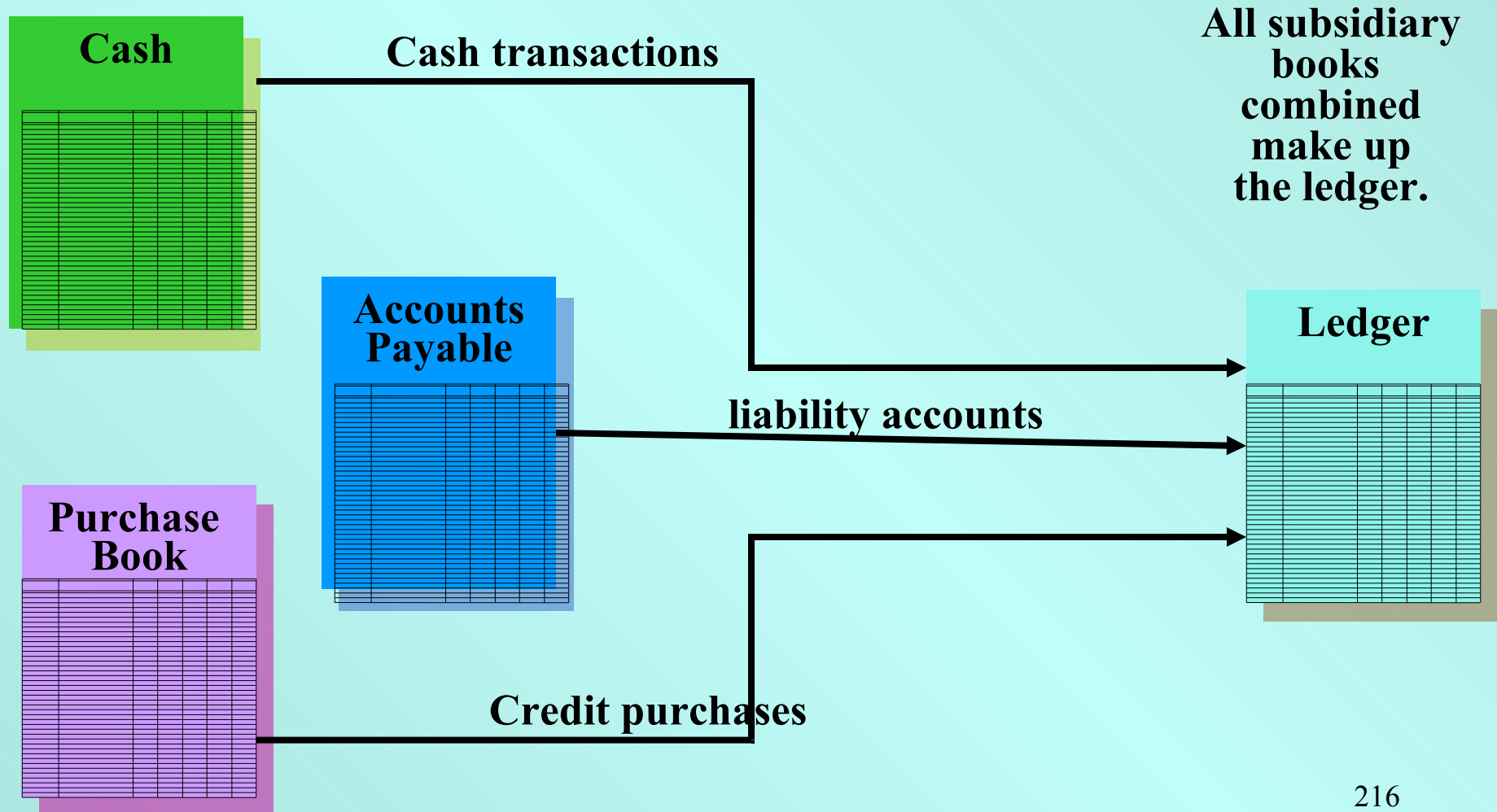
- What if it doesn't balance ?
- Is the addition correct?
- Are all accounts listed?
- Are the balances listed correctly?



Locating Trial Balance Errors

- Divide the difference by two.
- Is there a debit/credit balance for this amount posted in the wrong column?
- Check journal postings.
- Review accounts for reasonableness.
- Computerized accounting programs usually prohibit out-of-balance entries.

Subsidiary Books



Special Journals

SELLING



BUYING



Special Journals

SELLING



Rendering of services on account

recorded
in

Sales Book

BUYING



Special Journals

SELLING



Rendering of services on account

recorded

in

Sales Book

Receipt of cash from any source

recorded

in

Cash Book

BUYING



Special Journals

SELLING



Rendering of services on account

recorded

in

Sales Book

Receipt of cash from any source

recorded

in

Cash Book

BUYING



Purchase of items on account

recorded

in

Purchases Book

Special Journals

SELLING



Rendering of services or selling of product on account

recorded

in

Sales Book

Receipt of cash from any source

recorded

in

Cash Book

BUYING



Purchase of items on account

recorded

in

Purchases Book

Payment of cash for any purpose

recorded

in

Cash Book

The Sales Journal

Sales Journal				Page 35
Date	Invoice No.	Particulars	Details	Amount
3/2	615	MyMusicClub.com		2,200
3/6	616	RapZone.com		1,750
3/18	617	Web Cantina		2,650
3/27	618	MyMusicClub.com		3,000
		Totals		9,600

All sales on credit are recorded in this journal. Each sales invoice is listed in numerical order. This journal is often referred to as an invoice register.

The Purchases Journal

Purchases Journal			Page 11
Date	Particulars	Details	Amount
3/3	Howard Supplies		600
3/7	Donnelly Supplies		420
3/19	Donnelly Supplies		1,450
3/27	Howard Supplies		960
	Totals		3,430

All purchases on account are recorded in this journal.

Cash journals

- Single column Cash Book
= Simple cash Book
- Double column Cash Book
= Cash Book with bank column
- Triple column Cash Book
= Cash Book with Bank & Discount Column
- Petty Cash Book
= Record small cash payouts

The Financial Statements

The financial statements are a picture of the company in financial terms.

Each financial statement relates to a specific date or covers a particular period.



Information Reported on the Financial Statements

<i>Question</i>	<i>Answer</i>	<i>Financial Statement</i>
1. How well did the company perform (or operate) during the period?	$ \begin{array}{r} \text{Revenues} \\ - \text{Direct Expenses} \\ \hline \text{Gross income (Gross loss)} \end{array} $	Trading Account
1. How well did the company perform (or operate) during the period?	$ \begin{array}{r} \text{Gross Profit} \\ - \text{Indirect Expenses} \\ \hline \text{Net income (Net loss)} \end{array} $	Profit and Loss Account

Information Reported on the Financial Statements

Question

Answer

Financial Statement

3. What is the company's financial position at the end of the period?

**Assets
= Liabilities
+ Owners' equity**

Balance sheet

4. How much cash did the company generate and spend during the period?

**Operating cash flows
± Investing cash flows
± Financing cash flows

Increase or decrease in cash**

Statement of cash flows

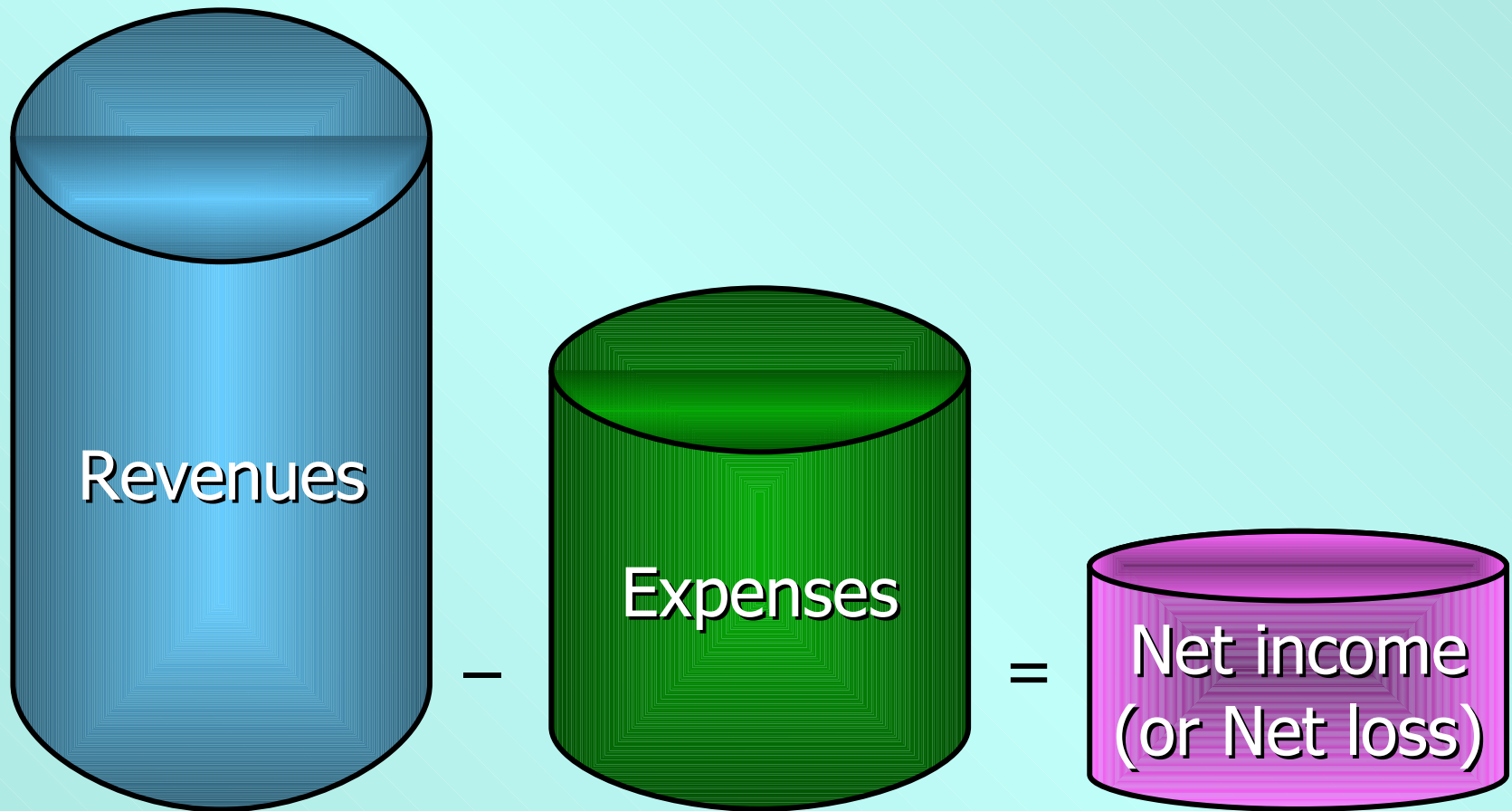
Income Statement

The *income statement*, reports the company's revenues, expenses, and net income or net loss for the period.

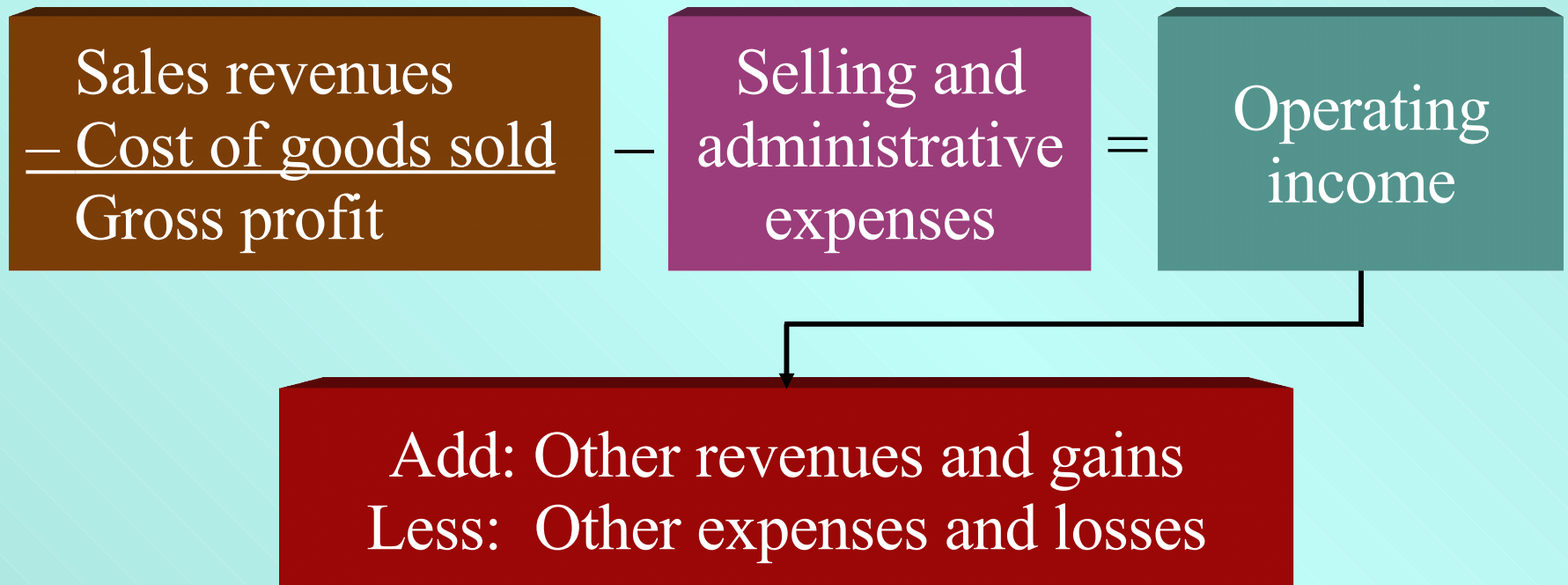
Introduction to the Income Statement

The *income statement* is a financial tool that provides information about a company's past performance.

The Income Statement



Income Statement Format



Income Statement

- Revenue** - the proceeds that come from sales to customers
- Cost of Goods Sold** - an expense that reflects the cost of the product or good that generates revenue. .
- Gross Margin** - also called gross profit, this is revenue minus COGS
- Operating Expenses** - any expense that doesn't fit under COGS
such as administration and marketing expenses.
- Net Income before Interest and Tax** - net income before taking interest and income tax expenses into account.
- Interest Expense** - the payments made on the company's outstanding debt.
- Income Tax Expense** - the amount payable to government.
- Net Income** - the final profit after deducting all expenses from revenue.

The Income Statement can be divided into:

- Trading Account
- Profit and Loss Account

The Accounting Terms

Revenues

Revenues are inflows or other enhancements of assets to an entity.

They result from delivering or producing goods, rendering services, or other activities that constitute the entity's major or central operations.

The Accounting Terms

Expenses

Expenses are outflows or other using up of assets.

They result from delivering or producing goods, rendering services, or other activities that constitute the entity's major or central operations.

The Accounting Terms

- Gross profit (gross margin) - excess of sales revenue over the cost of inventory that was sold
- Operating expenses - a group of recurring expenses that pertain to a firm's routine operations
- Operating income (operating profit) - gross profit less all operating expenses
- Other revenues and expenses - items not directly related to the main operations of a firm

The Accounting Terms

- Net income - the remainder after all expenses (including income taxes) have been deducted from revenue
 - Often seen as the “bottom line”
- Net loss - the excess of expenses over revenues

The Income Statement

DANIELS COMPANY
Income Statement
for the Year Ended June 30, 2002

Sales	Rs98,600
Expenses:	
Wages expense	Rs45,800
Rent expense	12,000
Carriage	6,500
Depreciation expense	<u>5,000</u>
Total expenses	<u>69,300</u>
Net Income	<u><u>Rs29,300</u></u>

Proforma for the Trading Account for the year ending on 31.12.2005

Particulars	Amount	Particulars	Amount
Opening stock		Sales	
Purchases		Less: Returns _____	
Less:- Returns		Closing stock	
:-Drawings		Goods Lost by fire	
Direct Expenses:-		(Gross Loss c/d)	
• Carriage inward			
• Wages			
• Fuel & Power			
• Manf. Expenses			
• Coal, water & gas			
• Foreman/Works			
• Manager's salary			
• Royalty on manf.			
Goods			
• Gross profit c/d(bal)			
			240

Proforma for the Profit and Loss Account for the year ending on 31.12.2005

Profit and Loss Account for the period ending on -----

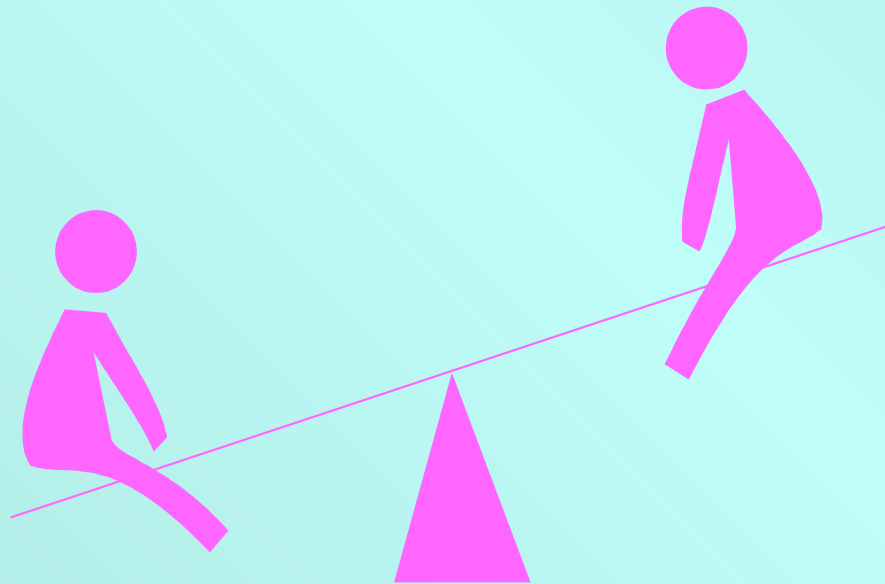
Debit

Credit

Particulars	Amount	Particulars	Amount
Gross loss b/d <u>Selling & Dist Exp :-</u> <ul style="list-style-type: none"> • Advertisement • Traveller's Salary, exp. & commission • Bad Debts <u>Administration Expenses</u> <ul style="list-style-type: none"> • Rent, Rates & Taxes • Office salaries • Printing & Stationary Net Profit c/d (bal)		Gross Profit b/d Interest Received Discount Received Comm. Received Net Loss c/d	

Introduction to the Balance Sheet

The *balance sheet* is the financial tool that focuses on the present condition of a business.



The Balance Sheet

- The Balance sheet shows the financial position of a company at a particular point in time.
 - The balance sheet is also referred to as the statement of financial position or the statement of financial condition.
- The left side lists assets – the right side lists liabilities and owners' equity

The Accounting Elements

Assets

Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions events.

The Accounting Elements

Liabilities

Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

The Accounting Elements

Equity

The residual interest in the assets of an entity that remains after deducting its liabilities.

Investment
by owners

Earned
equity

Formats of Balance Sheets

- Balance sheet formats:
 - Report format - a classified balance sheet with assets at the top and liabilities and equity below
 - Account format - a classified balance sheet with assets at the left and liabilities and equity at the right
- Regardless of format, balance sheets always contain the same basic information.

Balance Sheet Transactions

- The balance sheet is affected by every transaction that an entity encounters.
- Each transaction has counterbalancing entries that keep total assets equal to total liabilities and owners' equity.



BALANCE SHEET

- RESOURCES AVAILABLE FOR USE BY THE FIRM (ENTITY)
- ASSETS - PROBABLE FUTURE ECONOMIC BENEFITS
- HOW RESOURCES ARE FINANCED
- LIABILITIES - DEBT OWED TO OTHERS
- OWNERS' EQUITY - INVESTMENT BY OWNERS
 - DIRECT
 - INDIRECT

The Balance Sheet

STEVENS COMPANY

Balance Sheet as on June 30, 2005

Liabilities		Assets	
Owner's Equity		Fixed Assets:	
Hamilton, capital		Land	
Reserves		Plant	
Secured Loans		Equipment	
Unsecured Loans			
Current liabilities:		Total Fixed Asset	
Wages payable		Current assets:	
Tax payable		Bank balance	
Bills Payable		Cash balance	
		Bills Receivable	

PROFORMA BALANCE SHEET

LIABILITIES

ASSETS

SHARE CAPITAL

Authorised

Issued

Subscribed

Less:- Calls unpaid

Add:- Forfeited shares

RESERVES AND SURPLUS

SECURED LOANS

UNSECURED LOANS:

CURRENT LIABILITIES AND PROVISIONS:

A. CURRENT LIABILITIES:

a) Acceptances.

b) Sundry Creditors

c) Subsidiary companies.

FIXED ASSETS

a) Land , b) Buildings, c) Goodwill,
d) Plant and Machinery e) Furniture and fittings f) Patents, trade marks and designs.

INVESTMENTS:

a) Investments in Government or Trust Securities, in shares, debentures or bonds,

b) Immovable Properties.

CURRENT ASSETS, LOANS AND ADVANCES:

(A) Current Assets:

a) Interest accrued on Investments.

b) Stores and Spare Parts,c) Loose Tools

d) Stock in trade, e) Works in progress.

f) Sundry Debtors, g) Cash balance on hand

h) Bank balances

(B) LOANS AND ADVANCES:

The Balance Sheet

- Elements of the balance sheet:
 - Assets - resources of the firm that are expected to increase or cause future cash flows (everything the firm owns)
 - Liabilities - obligations of the firm to outsiders or claims against its assets by outsiders (debts of the firm)
 - Owners' Equity - the residual interest in, or remaining claims against, the firm's assets after deducting liabilities (rights of the owners)

Classifying Assets and Liabilities

Current assets

Long-term assets

Current liabilities

Long-term liabilities

**XYZ Ltd.
Trial Balance
November 30, 2002**

Cash	5,900	
Purchases	550	
Land	20,000	
Accounts Payable		400
Amit, Capital		25,000
Amit, Drawing	2,000	
Fees Earned		7,500
Wages Expense	2,125	
Rent Expense	800	
Commission	450	
Supplies Expense	800	
Miscellaneous Expense	275	
	32,900	32,900

**XYZ Ltd.
Trial Balance
November 30, 2002**

**Balance
Sheet**

Cash	5,900	
Purchases	550	
Land	20,000	
Accounts Payable		400
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	<u>32,900</u>	<u>32,900</u>

**XYZ Ltd.
Trial Balance
November 30, 2002**

**Income
Statement**

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Wages Expense	2,125	
Rent Expense	800	
Commission	450	
Supplies Expense	800	
Miscellaneous Expense	275	
	32,900	32,900

XYZ Ltd.

Balance Sheet

1. Assets

- 11 Cash**
- 12 Accounts Receivable**
- 14 purchases**
- 15 Prepaid Insurance**
- 17 Land**
- 18 Office Equipment**

2. Liabilities

- 21 Accounts Payable**
- 23 Unearned Rent**

3. Owner's Equity

- 31 Amit, Capital**
- 32 Amit, Drawing**

Income Statement

4. Revenue

- 2 Sales**

5. Expenses

- 51 Wages Expense**
- 52 Rent Expense**
- 54 Commission**
- 55 Supplies Expense**
- 59 Miscellaneous
Expense**

Summary

